



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

The state of local government finances and financial management as at 30 June 2014

Fourth Quarter of the 2013/14 financial year

Analysis Document

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1 Introduction

1. The State of Local Government Finances and Financial Management Report (SoLGF) has been published over the past six years. The report reviews the state of municipal budgets and expenditure as well as municipal governance issues in order to obtain a balanced view of the state of municipal finances. Since inception, this report has highlighted the fact that a large number of municipalities were in financial distress, which is concerning. **Annexure A** provides a list of municipalities in financial distress.
2. Over the last number of years, national government has made available substantial amounts of money for capacity building. Yet, there is very little indication that such funds and expenditure have yielded the intended outcomes, such as increased capacity and performance at local government level. In realizing the need to strengthen human capital, government has implemented a number of interventions but most of these interventions have unfortunately had limited success.
3. While the overarching aim is attaining sound financial management, the report strives to provide a regular overview of the state of municipal finances that can be used to:
 - (a) Identify areas of risk in local government finances so that appropriate system-wide responses can be investigated and developed; and
 - (b) Identify those municipalities who are in financial distress¹ so that processes can be initiated to determine the full extent of their financial problems with a view to determining whether:
 - A municipality requires support and what support should be provided, or
 - An intervention is required in a municipality due to a crisis in its finances (as provided for in section 139 of the Constitution).
4. This report uses information from the annual financial statements and data published in the fourth quarter of the 2013/14 financial year (i.e. the section 71 reports) to improve oversight over municipalities. The benefit of this report for municipalities is that it allows them to compare their performance to other municipalities in the country and specifically to those in the same category.
5. As was the case with previous reports, this review has been presented to the Technical Committee on Finance (TCF), the Budget Forum, the Budget Council, and will also be circulated to the Presidency, the Department of Cooperative Governance (DCoG), and provincial treasuries.
6. The report is structured as follows:
 - i. an international perspective is briefly discussed;
 - ii. measures of financial health;
 - iii. governance issues;
 - iv. funding compliance assessment;
 - v. financial health assessment;
 - vi. factors impacting on the financial health;

¹ The term 'financial distress' is used very deliberately instead of the words 'financial crisis' (which appear in section 139 of the Constitution and section 139 of the MFMA) because this report is only intended to provide an initial indication of which municipalities may be approaching 'financial crisis'.

- vii. capacity building strategies adopted by the government; and
- viii. risks posed by the current state of municipal finances and, the concluding remarks.

2 Lessons learnt at the international level

7. Recent studies indicate that the South African government public finance management performs relatively well against other developing countries. For instance, South Africa is ranked amongst the top five countries with regard to transparency in public finance management.
8. The World Bank report (2014) highlights a number of similarities regarding municipal financial management challenges globally. Common globally are the following:
 - i. High dependency by municipalities on conditional grants;
 - ii. Municipalities are under increasing pressure to provide basic services while their financial resources are dwindling;
 - iii. They exhibit low expenditure patterns in capital expenditure;
 - iv. They give less attention to the repair and maintenance of infrastructure; and
 - v. Municipalities that experience financial difficulties are best assisted through capacity development programmes, among others.
9. The World Bank also found that the effects of the 2008/09 global financial crisis have been such that municipalities are now compelled to exercise greater accountability when utilising public funds in order to achieve efficiency, effectiveness and economy. Essentially, that means careful management of municipal finances is required in achieving long term sustainability of local services and capital infrastructure.
10. This section briefly illustrates that financial management challenges that plague local government are an international phenomenon, implying that there are lessons to be learnt.

3 The Measures of Financial Health

11. There are a number of indicators commonly used to measure the financial health of municipalities. This report evaluates the state of municipal finances using eight key measures identified in the Funding Compliance Methodology and MFMA Circular No. 42 (Funding a Municipal Budget). National Treasury intends expanding the financial measures by adding an indicator on the proportion of expenditure on repairs and maintenance relative to property, plant and equipment. Though included in the table below, this measure has not been used as part of the analysis in determining municipalities in financial distress due to the fact that the data provided by municipalities is not reliable.

No.	Measure	Purpose
1.	Cash as a percentage of operating expenditure	To determine cost coverage – does the municipality have adequate cash available to meet its operating expenditure requirements?
2.	Persistence of negative cash balances	Identifies whether cash shortages / bank overdrafts pose a 'chronic' problem for the municipality.
3.	Over spending of original operating budgets	Tests the effectiveness of municipal spending in accordance with resources available to them, what is the credibility of the budget and are municipalities able to adjust expenditure should planned revenue not materialise.
4.	Underspending of original capital budgets	Tests the effectiveness of municipal spending – but also provides an indication of whether municipalities are compromising on capital programmes to resolve cash flow challenges, are there planning deficiencies which are impacting on service delivery, etc.
5.	Debtors as a percentage of own revenue	Examines the revenue management capabilities of municipalities.
6.	Year-on-year growth in debtors	Is the municipality exercising fiscal effort in collecting outstanding debt? To what extent is financial distress the result of poor debtor management.
7.	Creditors as a percentage of cash and investments	Is the municipality able to meet its monthly commitments – does it have sufficient cash to pay its creditors in line with the requirements of the MFMA (i.e. cost coverage).
8.	Reliance on national and provincial government transfers	Determine the levels at which municipalities are able to generate own funds to finance revenue generating assets to enhance and sustain revenue generating streams.
9.	The extent of repairs and maintenance as a percentage of property, plant and equipment. ***	Does the municipality prioritise expenditure towards repairs and maintenance? Is the level within the acceptable norms and standard as guided in the budget circulars?

*** Denotes that owing to data limitations this measure has not been incorporated in the financial distress list this year.

Audit outcomes – 2012/13 financial year

12. In the most recent report on local government audit outcomes, the Auditor-General (AG) highlights the fact that municipal audit outcomes show improvement. This conclusion is based on the fact that in aggregate the level of progression exceeds the rate of regression over the past five years. Also, most municipalities met the deadline for the submission of annual financial statements to the Auditor-General. This marks a significant improvement when compared to the past.
13. Notwithstanding these improvements, the levels of irregular, unauthorised and fruit and wasteful expenditures have continued to increase. Irregular expenditure has risen from R6.7 billion to R11.6 billion over the past three years. Unauthorised expenditure by 170 municipalities remains substantial at R9.2 billion, while fruitless and wasteful expenditure amounts to R815 million.
14. Broadly, the AG highlighted six main risk areas that still require closer attention namely (i) *supply chain management processes*, (ii) *quality of performance reports*, (iii) *human resource management*, (iv) *quality of submitted financial statements*, (v) *information technology controls* and, (vi) *financial health*.
15. As part of the audit process, the Auditor-General also assesses the root causes of audit findings as well as identify the internal controls that failed to prevent or detect the errors or non-compliance. The following root causes were reported as contributing to persistent poor audit outcomes:
 - i. Slow response by the political leadership in addressing the root causes of prior audit outcomes;
 - ii. Key positions vacant or key officials lacking appropriate competencies; and
 - iii. Lack of consequences for poor performance and transgression.
16. The following table presents a summary of audit opinions for all municipalities between 2008/09 and 2012/13:

Table 1: Summary of audit opinions for all municipalities, 2008/09 – 2012/13

Audit Opinion	2008/9		2009/10		2010/11		2011/12		2012/13	
	No.	%	No.	%	No.	%	No.	%	No.	%
Adverse	10	4%	7	3%	9	3%	4	1%	8	3%
Disclaimer	105	38%	83	30%	84	30%	86	31%	58	21%
Qualified	48	17%	61	22%	55	20%	68	24%	78	28%
Unqualified - with findings	112	40%	122	44%	117	42%	108	39%	99	36%
Unqualified - no findings	3	1%	5	2%	13	5%	9	3%	22	8%
Audits Outstanding	0	0%	0	0%	0	0%	3	1%	13	5%
Total	278	100%	278	100%	278	100%	278	100%	278	100%

17. In 2012/13 financial year, 22 municipalities, or 8 per cent, attained unqualified opinion without findings. This is the highest performance reported over the past five financial years. However, it should be noted that the bulk of the 'clean audits' were achieved by municipalities in the Western Cape and KwaZulu-Natal Provinces. In this reporting period, 1 metro and 3 secondary cities received clean audits, namely, City of Cape

Town, uMhlathuze, Steve Tshwete and George municipalities respectively. The remaining (18) clean audits were achieved by local municipalities.

18. The number of unqualified audit opinions with findings declined from 112 in 2008/09 to 99 in the 2012/13 financial year. On the other hand, qualified audit opinions increased from 48 to 78 over the same period. According to the Auditor-General, the reasons range from inability to produce financial statements without material statements to non-compliance with legislation and policies.
19. On a positive note, the number of municipalities that received disclaimers has declined significantly from 105 in 2008/09 to 58 in 2012/13. This maybe an indication that municipalities are gradually getting acquainted with the legislation and other key prescripts.
20. Fluctuating patterns are recorded in adverse opinions over these years; the highest being 10 municipalities in 2008/09, declining to 4 in 2011/12, and then increasing to 8 municipalities during the 2012/13 financial year.
21. Of significance also is the increase in outstanding audits over the past five years. For instance, during the first three years of the period under review, the outcome is nil, while 3 and 13 municipalities delayed their audits in 2011/12 and 2012/13 respectively. Notwithstanding this regression, the number of outstanding audits remains below the level of the previous five years when on average 20 or more municipalities had their audits outstanding. This might mean that most municipalities see the importance of adhering to the legislated timelines for submission to the Auditor-General. This trend could also be attributed to National Treasury's move to invoke of section 216(2) of the Constitution at Nala local municipality during 2012/13 financial year, due to persistent failure in submitting annual financial statements to the AG.
22. A concerted effort will be required from various stakeholders to ensure that municipalities that fail to comply with audit requirements put in place internal controls and also to come up with early-warning systems to mitigate the risk of non-compliance in future.
23. There is direct correlation between the absence of a permanent municipal manager or chief financial officer with the audit outcomes. The following observation was made during this assessment, where both the municipal manager and the chief financial officer were in acting positions:
 - i. 5 municipalities received unqualified opinions with findings (1 secondary city and 4 local municipalities);
 - ii. 2 municipalities received qualified audit opinion (1 metro and a local municipality);
 - iii. 5 local municipality received a disclaimer opinion; and
 - iv. 1 local municipality's audit could not be finalised within the legislated period.
24. As emphasised in the past, the relationship between the audit opinion and the financial health of a municipality is not unequivocal or explicit. An unqualified audit opinion is NOT an indicator of the absence of financial problems in a municipality. This is primarily because the audit process does not assess:
 - a) The adequacy of the municipality's cash reserves;
 - b) The credibility of the funding of the municipal budget;

- c) The allocative efficiency of the municipality's spending priorities;
 - d) The quality of the municipality's revenue management capabilities;
 - e) The effectiveness of municipal spending;
 - f) The sustainability of the municipality's capital budget and debt burden; and
 - g) The nature and extent of unauthorized, irregular, fruitless and wasteful expenditure.
25. In this assessment, some municipalities who have received either a clean or unqualified audit opinion are identified as being in financial distress according to the eight key measures identified above.
26. However, municipalities that received negative audit opinions on their financial statements tend to be on the list of those that are experiencing financial problems. 29 of the municipalities identified in the municipalities in distress list have received an adverse or disclaimer of opinion and 20 municipalities attained qualified audit opinions.
27. The Auditor-General asserts that the utilisation of consultants in preparing 2012/13 financial statements was highest in the Free State, Eastern Cape, Northern Cape, Mpumalanga, and Western Cape provinces. The ratio ranges between 60 and 79 per cent. KwaZulu-Natal recorded the lowest ratio at 36 per cent. The AG points out that the risk of the heavy reliance on consultants is that there is no skills transfer to the employees. In certain instances Supply Chain Management procedures were not followed in procuring the services of these consultants. In previous budget circulars, National Treasury advised municipalities against the excessive use of consultants as it does not encourage the development of employee's skills.
28. Another issue which requires closer attention is the manner in which municipalities report information on service delivery performance. Over the years, this issue has come up during the mid-year budget and performance review engagements. The quality of non-financial information reported by municipality lacks credibility, thus making analysis of service delivery performance difficult.
29. Section 8 of this report discusses capacity building initiatives currently underway in line with other key local government financial management reforms. It also discusses some of the processes implemented in refining service delivery performance information across the entire local government.

4 Governance: Acting Municipal Manager and CFO positions

30. In recognition of the complex nature in which the local government operates, section 82 of the Municipal Structures Act (MSA) obliges *the municipal council to appoint a Municipal Manager with relevant skills and expertise to perform the relevant functions of the position. The Municipal Manager is the accounting officer of a municipality and is therefore responsible for all major operations.*
31. Sections 80 of the Municipal Finance Management Act (MFMA) regulate *the establishment of the Budget and Treasury Office led by the Chief Financial Officer. The Chief Financial Officer oversees financial management of the municipality's resources and ensures adherence to relevant policies and legislation.*
32. The complexities in local government and the challenges experienced in running a municipality combined with high expectations by the public demand that key personnel at municipalities have the necessary skills, experience and capacity to fulfil their responsibilities and exercise their functions and powers. The reforms in financial and performance management have also resulted in a higher level of competency requirements for municipal managers, chief financial officers, supply chain officials and other senior managers.
33. Instability in the administrative leadership can also threaten the financial health of a municipality. As the accounting officer, overall accountability for the administration of the municipality vests with the municipal manager. National Treasury has through its interaction with municipalities generally observed that when this position is vacant, accountability is automatically diluted. This is either because the acting incumbent (if one is appointed) generally feels restricted from making certain key decisions. Alternatively, or if accountability is spread amongst several senior managers, no one person can be held accountable when things go wrong. It is therefore critical to ensure that the post of municipal manager is filled and that the necessary performance agreements and contracts are in place.
34. Another critical position in the municipal structure is that of the chief financial officer. The chief financial officer is responsible for the management of the Budget and Treasury Office, oversees the municipality's finances and ensures compliance with finance related legislation and council policies.
35. As part of National Treasury's efforts in promoting stability and accountability in municipalities, MFMA Budget Circular No.72 introduced additional requirements for the approval of a roll-over of unspent conditional grants. Municipalities applying to retain conditional allocations committed to identifiable projects or requesting a roll-over in terms of section 21(2) of the 2013 Division of the Revenue Act (DoRA) must submit proof that the chief financial officer is permanently appointed.
36. The following table shows the number of acting municipal managers and CFOs as at 30 June 2014.

Table 2: Municipalities with acting municipal managers and chief financial officers at 30 June 2014

2014		Acting MM		Acting CFO		Both Acting	
		No.	%	No.	%	No.	%
Eastern Cape	45	10	22.2%	14	31.1%	6	13.3%
Free State	24	3	12.5%	1	4.2%	0	0.0%
Gauteng	12	2	16.7%	2	16.7%	1	8.3%
Kw aZulu-Natal	61	10	16.4%	10	16.4%	5	8.2%
Limpopo	30	7	23.3%	3	10.0%	1	3.3%
Mpumalanga	21	5	23.8%	6	28.6%	3	14.3%
Northern Cape	32	3	9.4%	1	3.1%	0	0.0%
North West	23	5	21.7%	4	17.4%	1	4.3%
Western Cape	30	2	6.7%	3	10.0%	1	3.3%
All municipalities	278	47	16.9%	44	15.8%	18	6.5%

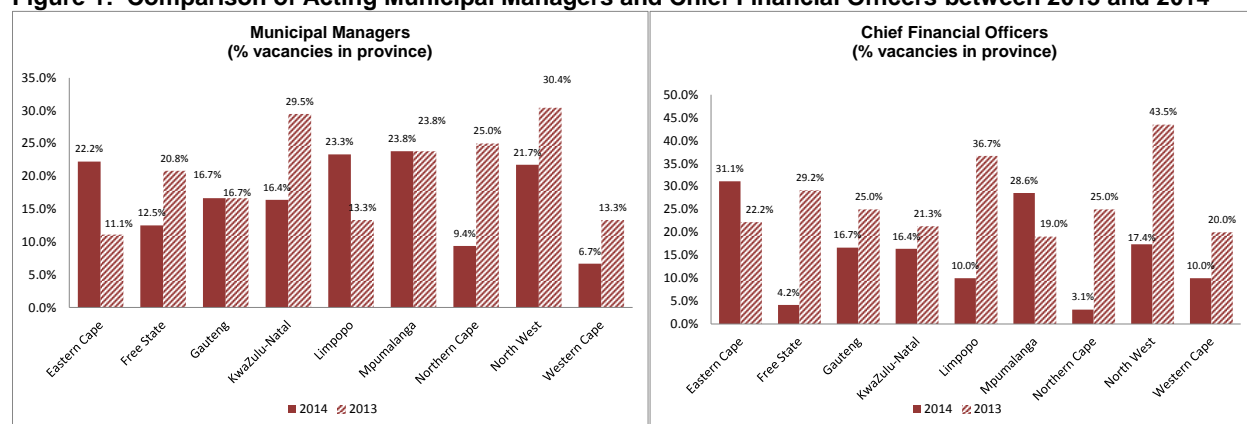
2013		Acting MM		Acting CFO		Both Acting	
		No.	%	No.	%	No.	%
Eastern Cape	45	5	11.1%	10	22.2%	3	6.7%
Free State	24	5	20.8%	7	29.2%	2	8.3%
Gauteng	12	2	16.7%	3	25.0%	0	0.0%
Kw aZulu-Natal	61	18	29.5%	13	21.3%	4	6.6%
Limpopo	30	4	13.3%	11	36.7%	4	13.3%
Mpumalanga	21	5	23.8%	4	19.0%	2	9.5%
Northern Cape	32	8	25.0%	8	25.0%	4	12.5%
North West	23	7	30.4%	10	43.5%	3	13.0%
Western Cape	30	4	13.3%	6	20.0%	2	6.7%
All municipalities	278	58	20.9%	72	25.9%	24	8.6%

2012		Acting MM		Acting CFO		Both Acting	
		No.	%	No.	%	No.	%
Eastern Cape	45	8	17.8%	5	11.1%	3	6.7%
Free State	24	5	20.8%	8	33.3%	2	8.3%
Gauteng	12	2	16.7%	1	8.3%	0	0.0%
Kw aZulu-Natal	61	17	27.9%	12	19.7%	3	4.9%
Limpopo	30	9	30.0%	11	36.7%	5	16.7%
Mpumalanga	21	10	47.6%	14	66.7%	8	38.1%
Northern Cape	32	8	25.0%	7	21.9%	4	12.5%
North West	23	13	56.5%	11	47.8%	8	34.8%
Western Cape	30	11	36.7%	6	20.0%	4	13.3%
All municipalities	278	83	29.9%	75	27.0%	37	13.3%

Source: Local Government Budget Analysis - National Treasury

37. Table 2 depicts that 47 municipalities or 17 per cent have acting municipal managers (MM's), while 44, or 16 per cent, of municipalities have acting chief financial officers (CFO's). Furthermore, it can be deduced that the positions of these key managerial functions were vacant (i.e. in acting capacity) in 18 municipalities for a long period during the 2013/14 financial year.
38. Deeper analysis also reveals that most acting MM's were recorded in Mpumalanga province at 24 per cent, followed by Limpopo and Eastern Cape provinces at 23 and 22 per cent respectively. The bulk of acting CFO's emanate from the Eastern Cape Province, at 31 per cent followed by Mpumalanga with 29 per cent.
39. Between 2012 and 2014, the number of acting MM's decreased from 83 to 47 municipalities while acting CFO's declined from 75 to 44 municipalities. The instances where both roles were in acting capacity have also halved from 37 to 18 municipalities.
40. The on-going instability in municipalities continues to have a negative impact on the service delivery to communities. The instability manifests at a number of levels, including the inability to make even basic managerial decisions, including delays in the appointment of service providers which could lead to low capital budget spending.

Figure 1: Comparison of Acting Municipal Managers and Chief Financial Officers between 2013 and 2014



41. Figure 1 reflects that between 2013 and 2014, the percentage of acting municipal managers declined in the Free State, KwaZulu-Natal, Northern Cape and North West provinces. Free State province declined from 20.8 per cent to 12.5 per cent while KwaZulu-Natal province decreased from 29.5 per cent to 16.4 per cent. The number of acting CFO's also fell in almost the provinces, with the exception to Mpumalanga and the Eastern Cape provinces. These findings are concerning given the status of audit outcomes in these provinces.

Competency levels of people in key positions as at 09 April 2014

42. The Municipal Regulations on Minimum Competency Levels, Gazette 29967, were issued on 15 June 2007. Officials holding key positions and tasked with financial management responsibilities were required to comply with a set of four requirements for their positions by the deadline date of 1 January 2013.
43. The prescribed requirements cover higher education qualifications; work related experience, core managerial and occupational competencies, financial Management and Supply Chain Management (SCM) competency levels. All municipalities and their municipal entities were given 5½ years to implement these requirements by the given deadline date of 1 January 2013.
44. The rationale behind the competency levels was to give effect to MFMA sections 83, 107 and 119 that require municipal financial officials to have the prescribed competency levels. This was also meant to equip the mentioned officials with the relevant skills to manage finances prudently and in line with the provisions contained within the MFMA (Act 56 of 2003) and the supporting legislations and Regulations governing the local government sector, including the relevant reporting standards.
45. Through MFMA Circular No. 60, municipalities were invited to make an application to National Treasury by the 7 September 2012, seeking the delay of the enforcement of the provisions in terms of the “Special Merit Case” as outlined under Regulations 15 and 18. These applications had to be accompanied by a detailed motivation and details of the affected officials. The merits of each application were considered taking into account each municipality’s particular circumstances.

Table 3: Special Merit Cases as at 09 April 2014

Province	Number of municipalities	Applications recieved	%	Favourably Considered	%	Outstanding supporting information
Eastern Cape	45	43	96	8	19	35
Free State	24	24	100	9	38	15
Gauteng	12	12	100	8	67	4
Kw a Zulu Natal	61	61	100	30	49	31
Limpopo	30	30	100	14	47	16
Mpumalanga	21	21	100	21	100	0
Northern Cape	32	31	97	5	16	26
North West	23	23	100	6	26	17
Western Cape	30	30	100	30	100	0
Total	278	275	99	131	48	144

46. Table 3 shows that applications for special merit cases were received from almost all municipalities in the country, except for 3 in the Eastern Cape and Northern Cape provinces. Out of the 275 municipalities that applied for exemption, 131 municipalities or 48 per cent were favourably considered. The highest number in outstanding supporting information is recorded in the Eastern Cape (35), KwaZulu-Natal (31) and Northern Cape (26) and the Eastern Cape (35).

5 Current funding compliance assessment information

47. In terms of section 18 of the MFMA a municipal budget must be funded before a municipal council can adopt that budget for implementation. A funded budget is essentially a budget that is funded by cash derived either from realistically anticipated revenues to be collected in that year, government transfers from cash backed reserves of previous financial years.
48. It is a common practice that most municipalities tend to overstate revenue projections either to reflect a surplus or on the surface show that excess expenditure requirements are adequately covered by revenues to be collected. Hence, the revenue estimates are seldom underpinned by realistic or realisable revenue assumptions resulting in the municipality not being able to collect this revenue and therefore finding itself in cash flow difficulties. Should such situations arise, municipalities must adjust expenditure downwards to ensure that there is sufficient cash to meet these commitments.
49. For this reason, National Treasury has developed a procedure to assess the 'Funding Compliance' of municipal budgets. This procedure has several dimensions and focuses on the future sustainability of the municipality with reference to the following key financial management objectives:
 - a) Short term viability and consideration of whether the community is 'paying its way' relative to economic benefits received;
 - b) Medium and long term sustainability; ensuring that the broader community maintains control over outcomes within appropriate levels of affordability (which is likely to be different for each municipality);
 - c) Achievement of community aspirations and service delivery goals;
 - d) Maintenance of a good credit rating and minimising financing costs; and
 - e) Achieving and maintaining key prudential measurements; e.g. borrowing limits.
50. The Funding Compliance indicates upfront whether a municipality's budget is adequately funded and highlights strategic financial sustainability risks that are not always evident from just looking at the numbers alone. The funding compliance assessment which is Supporting Table SA10 in the Municipal Budget and Reporting Regulation formats completes automatically, drawing on information provided in budget schedules such as the statement of financial performance, the cash flow statement, statement of financial position and so forth. It therefore brings together information from several tables and populates this into indicators of financial health. The benefit of the funding compliance table is that information cannot be easily distorted but it is dependent on the accuracy of the information provided by the municipality.
51. The Funding Compliance assessment for the tabled 2014/15 MTREF period revealed the following:
 - (a) With regard to the 8 metros:
 - 5 metros had budgets that were fully funded, this is same as last year;
 - A repeat observation from last year is that the City of Johannesburg and Nelson Mandela municipality's budgets were funded but with identified risk; and

- City of Tshwane tabled and adopted an unfunded budget for the 2014/15 MTREF period.
- (b) In terms of the 8 secondary cities and 1 district:
- Msunduzi, uMhlatuze, Sol Plaatjie and George local municipalities were the only four municipalities in this category that had fully funded budgets for the 2014/15 MTREF period;
 - The number of municipalities that tabled unfunded budgets fell from 6 to 2 between 2013/14 and 2014/15 fiscal years, the two being Rustenburg and Mafikeng local municipalities; and
 - Mbombela, Polokwane local municipalities and the O.R Tambo district tabled funded budgets with identified risks.
52. When looking at the 17 non-delegated municipalities, there is an improvement in the funding levels, however, the same conclusion cannot be drawn at an aggregate level. This may be attributed to the fact that local government is largely self-financed; national government has limited discretion in terms of imposing expenditure reductions and enforcing performance efficiencies in this tier of government.
53. Unfunded budgets indicate that the proposed operating and capital expenditure levels exceed the revenue available to the municipality. It is also a full indication that the municipality may not have sufficient cash backed reserves accumulated over the years in funding deficits.
54. Over the past five years, the National Treasury has assessed draft MTREF budgets of the 17 non-delegated municipalities. Through these engagements, there has been notable improvement in the manner in which non-delegated municipalities prepare annual budgets which are credible and financially sustainable over the short to medium term. However, the next step now is to ensure that all provincial treasuries adopt the same methodology. The Western Cape, Gauteng and KwaZulu-Natal provinces have progressed in this regard.

6 Assessing the Financial Health of municipalities

6.1 Indicators 1 & 2: Assessing the vulnerability of the cash position of municipalities

55. In terms of section 45 of the MFMA municipalities are not permitted to close the financial year with any short-term borrowing or overdraft. The fact that some municipalities were not able to close the financial year with positive cash positions is a very strong indicator that these municipalities were in financial distress at that date.
56. An additional condition for the approval of the roll-over application was introduced during the 2011/12 financial period whereby municipalities that reported a negative cash balances were not considered for an approval on the roll-over request.
57. At a very minimum a municipality should maintain a positive cash position. If the municipality does not reflect a positive cash position, it is the first indicator of financial distress. There are three sub-indicators used to provide a more holistic view of the cash position of municipalities. These are:
- (a) Did the municipality end the financial year with a positive or negative cash balance?

- (b) Are negative cash balances persistent – i.e. is the negative cash balance temporary in nature or is it indicative of deeper rooted financial difficulties prevalent in the municipality?
58. Even if a municipality has a positive cash balance, should the municipality's revenue base be threatened, for how many months will the municipality continue to fund its' monthly operational expenditure? In other words, what is the cash coverage ratio of the municipality?

(a) Persistence of negative cash balances

59. Many municipalities may experience temporary cash-flow problems. However, where cash-flow problems persist over a number of months it is a strong indicator that there are severe underlying financial problems. The following table shows for how many months in the previous six months a municipality has reported negative end of month cash balances or failed to report credible cash information. The aim is to identify those municipalities that are persistently in a vulnerable cash-flow position or those with unreliable information.

Table 4: Persistence of municipalities' negative cash balances

Municipalities	Audited Outcome 2012/13	Section 71 Report for the financial year 2013/14				
		Quarter 1: 30 Sep '13	Quarter 2: 31 Dec '13	Quarter 3: 31 Mar '14	Quarter 4: 30 Jun '14	Year to Date 2013/14
Metropolitan municipalities (8)						
No. of municipalities with negative cash balances over the last 6 months	0	0	0	0	0	0
No. of municipalities whose cash balance was negative over the last 6 months:						
for more than 3 months of previous 6 months	0	0	0	0	0	0
between 1 and 3 months of the previous 6 months	0	0	0	0	0	0
less than 1 month of the previous 6 months	0	0	0	0	0	0
Secondary cities (19)						
No. of municipalities with negative cash balances over the last 6 months	0	0	0	0	0	0
No. of municipalities whose cash balance was negative over the last 6 months:						
for more than 3 months of previous 6 months	0	0	2	2	1	1
between 1 and 3 months of the previous 6 months	0	0	2	2	5	5
less than 1 month of the previous 6 months	0	0	0	0	0	0
Other Local Municipalities (Towns) (207)						
No. of municipalities with negative cash balances over the last 6 months	0	0	0	0	0	0
No. of municipalities whose cash balance was negative over the last 6 months:						
for more than 3 months of previous 6 months	0	0	14	24	31	35
between 1 and 3 months of the previous 6 months	0	0	37	37	36	30
less than 1 month of the previous 6 months	0	0	0	0	0	0
District municipalities(44)						
No. of municipalities with negative cash balances over the last 6 months	0	0	0	0	0	0
No. of municipalities whose cash balance was negative over the last 6 months:						
for more than 3 months of previous 6 months	0	0	1	2	2	4
between 1 and 3 months of the previous 6 months	0	0	3	5	6	4
less than 1 month of the previous 6 months	0	0	0	0	0	0
All Municipalities (278)						
No. of municipalities with negative cash balances over the last 6 months	0	0	0	0	0	0
No. of municipalities whose cash balance was negative over the last 6 months:						
for more than 3 months of previous 6 months	0	0	17	28	34	40
between 1 and 3 months of the previous 6 months	0	0	42	44	47	39
less than 1 month of the previous 6 months	0	0	0	0	0	0

Source: National Treasury – Local Government Database

60. The table above reflects that 40 municipalities recorded negative cash balances at 30 June 2014. From the table, it can also be deduced that none of the metropolitan municipalities recorded negative cash balances throughout 2013/14 financial year. This is a strong indication that generally metros have a solid cash base and are conversant with the cash flow management procedures.
61. The number of secondary cities that reported negative balances for more than three months equals to 1 and is the same trend reported in the previous financial year. However, in this financial year we observe that 5 municipalities recorded unfavourable cash balances for less than 3 months. This reflects that cash balances among the secondary cities have deteriorated and there is an emerging risk requiring attention.
62. With regard to local municipalities, it is apparent that 35 municipalities or 17 per cent reported negative cash balances over the past six months. At the district level, it can be seen that 4 districts reported negative cash balances for more than 3 months. The same number of districts operated in an overdraft over a period of 1 to 3 months. From this performance, it can be concluded that districts are grant dependant as they do not necessarily generate their own revenue.

(b) Cash coverage position of municipalities

63. A municipality also needs to have enough cash on hand to meet its monthly payments as and when they fall due. In this regard, calculating the level of cash coverage in a municipality is important should the municipality be faced with circumstances that threaten revenue. It is generally accepted that a prudent level of cash coverage is three months of average operational expenditure. The table below shows the number of municipalities that at the end of June 2014 had less than three months cash coverage.

Table 5: Municipalities' cash coverage

Municipalities	Audited Outcome 2012/13	Section 71 Report for the financial year 2013/14				
		Quarter 1: 30 Sep '13	Quarter 2: 31 Dec '13	Quarter 3: 31 Mar '14	Quarter 4: 30 Jun '14	Year to Date 2013/14
Metropolitan municipalities (8)						
No. of munics for which cash data is unavailable	0	0	0	0	0	0
No. whose cash coverage is more than 3 months of operational expenditure	2	7	7	8	7	2
between 1 and 3 months of operational expenditure	4	1	0	0	1	5
1 month or less of operational expenditure	2	0	1	0	0	1
Secondary cities (19)						
No. of munics for which cash data is unavailable	0	0	0	0	0	0
No. whose cash coverage is more than 3 months of operational expenditure	6	11	11	14	7	2
between 1 and 3 months of operational expenditure	3	4	5	3	6	6
1 month or less of operational expenditure	10	4	3	2	6	11
Other Local Municipalities (Towns) (207)						
No. of munics for which cash data is unavailable	18	0	1	1	2	0
No. whose cash coverage is more than 3 months of operational expenditure	62	131	125	152	89	53
between 1 and 3 months of operational expenditure	39	22	31	19	24	38
1 month or less of operational expenditure	88	54	50	35	92	116
District municipalities(44)						
No. of munics for which cash data is unavailable	2	0	0	0	1	0
No. whose cash coverage is more than 3 months of operational expenditure	19	37	33	39	26	15
between 1 and 3 months of operational expenditure	14	2	4	2	7	11
1 month or less of operational expenditure	9	5	7	3	10	18
All Municipalities (278)						
No. of munics for which cash data is unavailable	20	0	1	1	3	0
No. whose cash coverage is more than 3 months of operational expenditure	89	186	176	213	129	72
between 1 and 3 months of operational expenditure	60	29	40	24	38	60
1 month or less of operational expenditure	109	63	61	40	108	146

Source: National Treasury – Local Government Database

64. Over the years, it can be seen that municipalities are getting accustomed to reporting cash information. For instance, during 2012/13 financial year, 20 municipalities failed to report cash data while on 30 June 2014 the figure reported is nil.
65. At an aggregate level, 72 municipalities (26 per cent) recorded cash coverage that exceeds 3 months of operational expenditure, which is within the acceptable norm. 60 municipalities (22 per cent) had cash covering between 1 and 3 months of operating expenditure. These municipalities are at risk. It is concerning that a significant number (i.e. 52 per cent or 146 municipalities) would not adequately cover monthly expenditure.
66. Of the 8 metros, the City of Tshwane had poor cash coverage. This is an improvement from 2012/13 when 2 metros were faced with the cash coverage risk.
67. Secondary cities with 3 months cash coverage has improved from 6 to 2 municipalities. The number of municipalities with cash coverage below three months has also decreased from 17 to 13, but this number still remains high.

68. Of the 207 local municipalities, 116 reported one month cash coverage in 2013/14, which is 28 more municipalities than in 2012/13. The number of local municipalities with good cash coverage has also declined from 62 to 53 in this reporting period.
69. District municipalities also reflect the same trends articulated above, wherein the number of municipalities with good coverage has declined from 19 to 15. There is also a significant rise in the number of district municipalities with poor cash coverage.
70. In summary, the conclusion is that few municipalities understand the notion of budgeting for surpluses to alleviate cash and liquidity challenges. That is notwithstanding the fact that the economic slowdown still prevails.
71. As cited in previous publications, any one of the following events could result in a municipality with a very low (vulnerable) cash coverage ratio ending up into a negative cash position:
 - a) A deterioration in revenue collections due to the impact of the economic recession and the rising rates and tariffs on the affordability of household budgets;
 - b) The need to pay suppliers, especially contractors responsible for capital projects;
 - c) The need to finance the cash-flow difference between paying for the increased cost of bulk electricity/water and the collection of revenues from customers;
 - d) Any major breakdown in service delivery resulting in non-supply (especially water and electricity), and therefore no revenue; or
 - e) A rate-payers/consumers boycott.

5.2 Indicator 3: Over / underspending of operational budgets

72. Municipalities that have difficulty compiling credible operational budgets or that are unable to manage their operational expenditures according to their budgets are at financial risk. Where either of these failures occur within the context of limited cash resources, and poor revenue collection rates, the financial risk is greatly magnified.
73. In the past, municipalities had the habit of passing last minute 'adjustments budgets' just prior to submitting their annual financial statements to the Auditor-General and by so doing align their budgets with actual spending. This manipulative practice enabled municipalities to hide both over and under spending relative to their original budgets. This bad practice has been addressed by the Municipal Budget and Reporting Regulations which regulates the timing and number of adjustments budgets municipalities are allowed to pass.
74. The table below reflects the overspending of operational budgets from 2009/10 to 2013/14 per category of municipality:

Table 6: Overspending on operational budgets

	Audited Outcome				Section 71 Report for the financial year 2013/14				
	2009/10	2010/11	2011/12	2012/13	Quarter 1: 30 Sep '13	Quarter 2: 31 Dec '13	Quarter 3: 31 Mar '14	Quarter 4: 30 Jun '14	Year to Date 2013/14
Metropolitan municipalities (8)									
Total Original Operating Budgets	96 657	109 105	124 931	138 942	149 942	149 942	149 512	149 512	149 512
Total Overspending of Original Operating Budgets	1 980	2 633	2 051	-	2 633	2 051	-	17 665	8 984
Overspending as % of original operating budgets	2%	2%	2%	0%	2%	1%	0%	12%	6%
Number of municipalities who overspent by									
less than 10% of their operational budget	5	6	4	8	1	0	3	1	2
between 10% and 25% of their operational budget	0	0	0	0	2	2	3	2	5
more than 25% of their operational budget	3	2	4	0	5	6	0	5	1
Secondary cities (19)									
Total Original Operating Budgets	23 025	27 639	30 326	34 677	34 778	34 778	36 205	36 205	36 205
Total Overspending of Original Operating Budgets	1 709	3 045	3 758	3 006	3 045	3 758	3 006	5 335	4 159
Overspending as % of original operating budgets	7%	11%	12%	9%	9%	11%	8%	15%	11%
Number of municipalities who overspent by									
less than 10% of their operational budget	2	3	9	3	3	1	5	2	3
between 10% and 25% of their operational budget	0	0	0	0	3	5	3	3	5
more than 25% of their operational budget	15	14	8	14	6	8	4	9	4
Other Local Municipalities (Towns) (207)									
Total Original Operating Budgets	32 131	38 346	45 419	45 330	50 585	50 585	51 505	51 505	51 505
Total Overspending of Original Operating Budgets	7 806	5 402	9 712	5 862	5 402	9 712	5 862	9 726	3 476
Overspending as % of original operating budgets	24%	14%	21%	13%	11%	19%	11%	19%	7%
Number of municipalities who overspent by									
less than 10% of their operational budget	67	62	55	71	28	20	30	25	30
between 10% and 25% of their operational budget	0	0	0	0	46	37	34	27	38
more than 25% of their operational budget	142	147	154	138	54	87	50	85	64
District municipalities(44)									
Total Original Operating Budgets	12 976	13 326	15 424	14 018	15 590	15 590	16 601	16 601	16 601
Total Overspending of Original Operating Budgets	4 790	2 425	3 026	2 812	2 425	3 026	2 812	2 359	919
Overspending as % of original operating budgets	37%	18%	20%	20%	16%	19%	17%	14%	6%
Number of municipalities who overspent by									
less than 10% of their operational budget	14	18	14	21	6	5	1	6	6
between 10% and 25% of their operational budget	0	0	0	0	5	6	9	8	8
more than 25% of their operational budget	30	26	30	23	7	16	12	16	11

Source: National Treasury – Local Government Database

75. Table 6 above indicates that none of the metros have overspent their operational budgets. From the above table, it can be seen that 6 metros have exceeded their original revenue and expenditure projections and shows weak multi-year budgeting.

76. Of the 19 secondary cities, 3 overspent operational budget allocations (i.e. below 10 per cent). This is a reflection of credible budgeting which is similar to the patterns observed in metropolitan municipalities.
77. Local municipalities exhibit overspending above 25 per cent, in 64 municipalities, while 30 municipalities recorded overspending below 10 per cent. With regard to the districts, 23 reported significant (i.e. 25 per cent) overspending in 2012/13.
78. From the above analysis, it can be concluded that local municipalities and districts are still grappling with producing credible revenue and expenditure projections. A concerted effort in improving this situation is still required.

Table 7: Under-spending of operational budgets

	Audited Outcome				Section 71 Report for the financial year 2013/14				
	2009/10	2010/11	2011/12	2012/13	Quarter 1: 30 Sep '13	Quarter 2: 31 Dec '13	Quarter 3: 31 Mar '14	Quarter 4: 30 Jun '14	Year to Date 2013/14
Metropolitan municipalities (8)									
Total Original Operating Budgets	96 657	109 105	124 931	138 942	149 942	149 942	149 512	149 512	149 512
Total Underspending of Original Operating Budgets	(1 995)	(3 768)	(2 762)	(5 900)	(3 768)	(2 762)	(5 900)	-	8 681
Underspending as % of original operating budgets	-2%	-3%	-2%	-4%	-3%	-2%	-4%	0%	6%
Number of municipalities who underspent by									
less than 10% of their operational budget	8	8	8	8	0	0	2	0	0
between 10% and 25% of their operational budget	0	0	0	0	0	0	0	0	0
more than 25% of their operational budget	0	0	0	0	0	0	0	0	0
Secondary cities (19)									
Total Original Operating Budgets	23 025	27 639	30 326	34 677	34 778	34 778	36 205	36 205	36 205
Total Underspending of Original Operating Budgets	(395)	(147)	(1 547)	(364)	(147)	(1 547)	(364)	(627)	550
Underspending as % of original operating budgets	-2%	-1%	-5%	-1%	0%	-4%	-1%	-2%	2%
Number of municipalities who underspent by									
less than 10% of their operational budget	17	17	17	17	3	2	3	0	3
between 10% and 25% of their operational budget	0	0	0	0	0	1	0	1	1
more than 25% of their operational budget	0	0	0	0	2	0	1	1	0
Other Local Municipalities (Towns) (207)									
Total Original Operating Budgets	32 131	38 346	45 419	45 330	50 585	50 585	51 505	51 505	51 505
Total Underspending of Original Operating Budgets	(1 714)	(2 002)	(2 231)	(5 042)	(2 002)	(2 231)	(5 042)	(2 990)	3 303
Underspending as % of original operating budgets	-5%	-5%	-5%	-11%	-4%	-4%	-10%	-6%	6%
Number of municipalities who underspent by									
less than 10% of their operational budget	209	209	209	209	26	22	34	14	27
between 10% and 25% of their operational budget	0	0	0	0	18	19	25	23	24
more than 25% of their operational budget	0	0	0	0	36	23	26	25	16
District municipalities(44)									
Total Original Operating Budgets	12 976	13 326	15 424	14 018	15 590	15 590	16 601	16 601	16 601
Total Underspending of Original Operating Budgets	(766)	(1 361)	(915)	(3 114)	(1 361)	(915)	(3 114)	(1 798)	(358)
Underspending as % of original operating budgets	-6%	-10%	-6%	-22%	-9%	-6%	-19%	-11%	-2%
Number of municipalities who underspent by									
less than 10% of their operational budget	44	44	44	44	3	7	5	6	3
between 10% and 25% of their operational budget	0	0	0	0	9	5	7	2	7
more than 25% of their operational budget	0	0	0	0	14	5	10	6	9

Source: National Treasury – Local Government Database

79. The above table outlines underspending on operational budgets by the local government as at 30 June 2014. Noted with concern is that across all categories, there is a general increase in the number of local municipalities that underspent their operational budgets as follows:
 - (a) 33 municipalities underspent by less than 10 per cent;
 - (b) 32 municipalities underspent between 10 and 25 per cent; and
 - (c) 25 municipalities underspent their operational budgets by more than 25 per cent.

80. The trends reflected above demonstrate that municipal councils adopt over optimistic operational budgets.

6.3 Indicator 4: Under-spending of capital budgets

81. The total adjusted capital infrastructure programme for 2013/14 financial year amounted to R61.8 billion, of which R48 billion or 78 per cent was spent by 30 June 2014.

Table 8: Under-spending of capital budgets

	Audited Outcome				Section 71 Report for the financial year 2013/14				
	2009/10	2010/11	2011/12	2012/13	Quarter 1: 30 Sep '13	Quarter 2: 31 Dec '13	Quarter 3: 31 Mar '14	Quarter 4: 30 Jun '14	Year to Date 2013/14
Metropolitan municipalities (8)									
Total Original Capital Budget	22 866	20 428	22 379	25 082	28 633	28 633	30 249	30 249	30 249
Total Underspending of Original Capital Budget	(1 039)	3 307	3 922	2 036	4 241	1 228	2 713	5 062	3 928
Underspending as % of Original Capital Budget	-5%	16%	18%	8%	15%	4%	9%	17%	13%
Number of municipalities who underspent by less than 10% of their capital budget	0	0	2	3	0	5	5	0	1
between 10 and 30% of their capital budget	4	5	4	2	8	1	3	0	6
more than 30% of their capital budget	0	1	2	1	0	0	0	0	0
Secondary cities (19)									
Total Original Capital Budget	6 427	5 264	5 093	5 638	6 456	6 456	7 577	7 577	7 577
Total Underspending of Original Capital Budget	878	1 104	1 632	1 186	956	401	1 018	272	2 663
Underspending as % of Original Capital Budget	14%	21%	32%	21%	15%	6%	13%	4%	35%
Number of municipalities who underspent by less than 10% of their capital budget	2	1	2	2	1	8	5	5	1
between 10 and 30% of their capital budget	4	7	3	5	16	6	11	2	7
more than 30% of their capital budget	8	7	11	6	0	0	0	0	9
Other Local Municipalities (Towns) (207)									
Total Original Capital Budget	8 275	10 330	10 229	12 754	13 563	13 563	15 137	15 137	15 137
Total Underspending of Original Capital Budget	(1 112)	19	(4 994)	(1 261)	1 574	971	1 805	65	5 201
Underspending as % of Original Capital Budget	-13%	0%	-49%	-10%	12%	7%	12%	0%	34%
Number of municipalities who underspent by less than 10% of their capital budget	12	23	12	16	48	59	59	51	19
between 10 and 30% of their capital budget	31	43	43	47	121	91	119	58	54
more than 30% of their capital budget	113	82	93	97	0	0	0	0	107
District municipalities (44)									
Total Original Capital Budget	4 708	5 331	7 160	8 177	7 765	7 765	8 904	8 904	8 904
Total Underspending of Original Capital Budget	233	718	3 054	3 180	822	100	695	45	2 142
Underspending as % of Original Capital Budget	5%	13%	43%	39%	11%	1%	8%	0%	24%
Number of municipalities who underspent by less than 10% of their capital budget	1	3	3	2	6	12	13	9	5
between 10 and 30% of their capital budget	5	7	5	5	33	17	23	14	16
more than 30% of their capital budget	30	24	26	29	0	0	1	0	17

Source: National Treasury – Local Government Database

82. Table 8 denotes that metropolitan municipalities underspent their original capital budgets by R3.9 billion during 2013/14 financial year. This performance reflects that metros have worsened, last year's underspending stood at R2 billion. Furthermore, a repeat observation from last year is that most metros underspent their capital budgets between 10 and 30 per cent. Also, in this reporting period it is noted that 1 metro underspent slightly.
83. Secondary cities and local municipalities that underspent capital budgets by more than 30 per cent have increased between 2012/13 and 2013/14. The number of secondary cities increased from 6 to 9 municipalities, while local municipalities escalated from 97 to

107. However, the number of districts that underspent capital budgets declined in this period.
84. A common trend observed over the years is that municipalities generally struggle with implementing their capital budgets. Contributing factors include amongst others:
- i. Weak multi-year budgeting;
 - ii. Limited planning and project management; and
 - iii. Supply Chain Management inefficiencies.

Indicator 5 and 6: Levels of Growth in Consumer Debtors

85. Consumer debtors as a percentage of own revenue provides a useful and easily calculated indicator of the state of municipalities' debtor management capabilities. Municipalities whose debtors are greater than 30 per cent of own revenue are at serious financial risk, especially if there is an on-going deteriorating trend.
86. However, when the quality of municipal reporting on this information improves, the National Treasury will at the opportune time make the following refinements:
- a) Consumer debtors will be reduced by the provision for debt impairment. This will align this amount with what municipalities are supposed to be reporting in their annual financial statements, and on Table A6 of the budget formats; and
 - b) Own revenue will be replaced by billable revenue so as to emphasise that consumer debtors arise due to the failure to collect this particular revenue.
87. Debt impairment as a percentage of billable revenue will be added as a complementary measure so as to highlight the cost to the municipality of providing for the non-collection/writing off of billable revenue. The table below shows that at 30 June 2014, there were at least 158 municipalities with debtor levels higher than 30 per cent of own revenue. This represents a decrease from June 2013 where 190 municipalities reported debtors in excess of 30 per cent of own revenue.

Table 9: Debtors as at 30 June 2014 percentage of own revenue

	Audited Outcome				Section 71 Report for the financial year 2013/14				
	2009/10	2010/11	2011/12	2012/13	Quarter 1: 30 Sep '13	Quarter 2: 31 Dec '13	Quarter 3: 31 Mar '14	Quarter 4: 30 Jun '14	Year to Date 2013/14
Metropolitan municipalities (8)									
Total Own Revenue	103 482	100 907	51 319	53 763	35 221	34 518	35 610	40 316	146 182
Total Debtors	32 412	38 636	46 089	57 659	52 513	51 980	53 250	52 879	52 879
Debtors as a % of total own revenue	31%	38%	90%	107%	149%	151%	150%	131%	36%
No. whose total debtors are									
less than 15% of their total own revenue	0	0	4	3	0	0	0	0	0
between 15 and 30% of their total own revenue	5	4	2	2	0	0	0	0	3
more than 30% of their total own revenue	3	4	2	3	8	8	8	8	5
Secondary cities (19)									
Total Own Revenue	23 237	23 847	25 511	27 623	8 994	7 031	6 884	8 590	31 132
Total Debtors	9 839	11 489	13 904	12 031	16 283	16 524	16 914	17 138	17 138
Debtors as a % of total own revenue	42%	48%	55%	44%	181%	235%	246%	200%	55%
No. whose total debtors are									
less than 15% of their total own revenue	5	4	11	15	1	1	1	1	5
between 15 and 30% of their total own revenue	5	2	1	0	0	1	1	1	3
more than 30% of their total own revenue	9	13	7	4	18	17	17	17	11
Other Local Municipalities (Towns) (207)									
Total Own Revenue	27 620	41 301	120 152	127 124	9 775	7 426	8 266	10 147	35 280
Total Debtors	11 768	13 558	16 435	16 066	20 243	21 393	21 438	20 830	20 830
Debtors as a % of total own revenue	43%	33%	14%	13%	207%	288%	259%	205%	59%
No. whose total debtors are									
less than 15% of their total own revenue	54	54	92	114	33	27	35	35	46
between 15 and 30% of their total own revenue	42	42	30	19	3	0	0	4	35
more than 30% of their total own revenue	110	111	85	68	171	180	171	166	126
District municipalities(44)									
Total Own Revenue	7 202	6 021	4 446	6 965	410	859	731	1 851	5 061
Total Debtors	1 858	2 275	2 837	2 597	2 701	3 843	3 079	3 177	3 177
Debtors as a % of total own revenue	26%	38%	64%	37%	659%	448%	421%	172%	63%
No. whose total debtors are									
less than 15% of their total own revenue	28	23	36	37	18	17	14	20	20
between 15 and 30% of their total own revenue	6	8	2	3	4	4	4	0	8
more than 30% of their total own revenue	10	13	6	4	22	23	26	24	16

Source: National Treasury – Local Government Database

88. The table shows that 5 metropolitan municipalities debtors' against own revenue is recorded above the 30 per cent mark.
89. The table above reflects significant changes in the performance of secondary cities over the past two financial years. The number of municipalities who have debtors in excess of 30 per cent of own revenue has increased from 4 to 11 municipalities.
90. The number of local municipalities with total debtors more than 30 per cent of own revenue, has increased substantially from 68 in 2012/13 to 126 in 2013/14. The same trend is manifested among the district municipalities where the number rose 4 to 16. These results indicate ineffective credit and debt collection strategies by municipalities.
91. The 2013/14 fourth quarter Section 71 results indicate that the total debtors amount to R94 billion and the bulk is recorded under the household's category.
92. Efforts to assist municipalities in unbundling outstanding government debt are underway. Since beginning of the year under review, all municipalities are required to further unbundle debtors; in-year reporting refinements include the unbundling of government debtors into national and provincial departments and the disclosure of the interest component of outstanding debtors separately. This information is critical in unpacking and understanding debt owed to municipalities and the impact of such debt on financial sustainability. This is also required to limit the use of 'other debtors' in the reporting

returns; 'other debtors' as a percentage of outstanding debtors is unacceptably high and the use "other debtors" is highly discouraged.

93. The respective provincial treasuries have undertaken a process to provide assistance to municipalities in this regard.
94. The underperformance of actual collections against billed revenue can be attributed to amongst others, the affordability of municipal services. The on-going economic slowdown and substantial increases in electricity tariffs are starting to impact on affordability and subsequently the ability of consumers to pay for services. It is important to note that the growth in the level of consumer debtors may also be attributed to the following:
 - a) Failure by the Mayors and municipal councils to provide political backing to revenue enhancement programmes (often councillors are in arrears with their own payments);
 - b) Failure on the part of municipal managers to allocate sufficient staff/capacity to the revenue collection function, thus compromising implementation of policies to enhance revenue;
 - c) Poorly designed revenue management, indigent and debtor policies;
 - d) Resistance among certain communities to pay for certain types of services (or to be billed in a particular way); and
 - e) Rate-payer boycotts, sparked by deteriorating service delivery, and perceptions that the municipality is unresponsive to community concerns.
95. Table 10 below shows growth in consumer debtors between 2009/10 and 2013/14 financial years.

Table 10: Growth in consumer debtors as at 30 June 2014

	Audited Outcome			Section 71 Report for the financial year 2013/14				
	2009/10	2010/11	2012/13	Quarter 1: 30 Sep '13	Quarter 2: 31 Dec '13	Quarter 3: 31 Mar '14	Quarter 4: 30 Jun '14	Year to Date 2013/14
Metropolitan municipalities (8)								
No. whose debtors grew	7	8	7	4	3	6	5	5
No. whose debtors increased by								
less than 10% over period shown	2	1	1	3	3	6	4	4
between 10% and 20% over period shown	4	4	2	0	0	0	1	1
more than 20% over period shown	1	3	4	1	0	0	0	0
Secondary cities (19)								
No. whose debtors grew	15	18	11	16	10	15	17	17
No. whose debtors increased by								
less than 10% over period shown	4	3	5	4	9	15	4	4
between 10% and 20% over period shown	7	11	4	3	1	0	4	4
more than 20% over period shown	4	4	2	9	0	0	9	9
Other Local Municipalities (Towns) (207)								
No. whose debtors grew	151	161	115	158	128	132	150	150
No. whose debtors increased by								
less than 10% over period shown	22	26	18	52	87	111	13	13
between 10% and 20% over period shown	46	60	35	28	18	12	41	41
more than 20% over period shown	83	75	62	78	23	9	96	96
District municipalities(44)								
No. whose debtors grew	20	21	25	24	28	23	26	26
No. whose debtors increased by								
less than 10% over period shown	2	3	0	8	9	16	4	4
between 10% and 20% over period shown	3	4	2	3	7	3	2	2
more than 20% over period shown	15	14	23	13	12	4	20	20
All Municipalities (278)								
No. whose debtors grew	193	208	158	202	169	176	198	198
No. whose debtors increased by								
less than 10% over period shown	30	33	24	67	108	148	25	25
between 10% and 20% over period shown	60	79	43	34	26	15	48	48
more than 20% over period shown	103	96	91	101	35	13	125	125

Source: National Treasury – Local Government Database

96. It should be acknowledged that there is a general decline in the debtors that grew more than 20 per cent between 2009/10 and 2013/14. For instance, municipalities falling in this category increased from 103 to 125 over the past 4 years. Further analysis indicates that none of the metros are affected while 9 secondary cities fall in this category.
97. Local municipalities and districts whose debtors grew more than 20 per cent are recorded at 96 and 20 respectively, depicting a decline from the performance recorded in 2012/13 financial year. This may indicate a slight improvement in the manner in which debtor collection processes are implemented by certain municipalities.
98. Notwithstanding the improvements in debt collection discussed above, municipal consumer debtors continue to increase. This can be attributed to the annual Eskom increases, the economic slowdown and unemployment, i.e. factors impacting on household's ability to pay for municipal services. A lack of political will to collect outstanding bills is also a contributing factor.

Indicator 7: Levels of creditors

99. Section 65(2)(e) of the MFMA provides that the accounting officer of a municipality must take all reasonable steps to ensure “that all money owing by the municipality be paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure.” The quality of the information on the age of outstanding creditors has improved in recent months, but it still remains weak. This issue continues to receive attention.
100. In addition section 65(2)(h) provides that the accounting officer must take all reasonable steps to ensure ‘that the municipality’s available working capital is managed effectively and economically’. At the very least this involves ensuring that the timing of the municipality’s expenditures is matched by its flow of income.
101. The following table shows creditors as a percentage of cash and investments. This indicates whether municipalities have the working capital to settle their outstanding creditors.

Table 11: Creditors as a percentage of cash and investments

	Audited Outcome				Section 71 Report for the financial year 2013/14				
	2009/10	2010/11	2011/12	2012/13	Quarter 1: 30 Sep '13	Quarter 2: 31 Dec '13	Quarter 3: 31 Mar '14	Quarter 4: 30 Jun '14	Year to Date 2013/14
Metropolitan municipalities (8)									
Total Cashflow	-	-	-	20 744	23 550	26 760	34 097	28 419	28 419
Total Creditors	8 002	11 331	10 267	30 608	8 710	9 190	8 841	14 258	14 258
Creditors as a % of Total Cash	0%	0%	0%	148%	37%	34%	26%	50%	50%
No. whose Total Creditors are									
less than 25% of their Cash	0	0	0	0	3	3	4	2	2
between 25 and 50% of their Cash	0	0	0	2	3	4	3	4	4
between 50 and 75% of their Cash	0	0	0	0	1	0	0	0	0
more than 75% of their Cash	0	0	0	6	1	1	1	2	2
Secondary cities (19)									
Total Cashflow	-	-	-	3 689	3 821	4 304	4 994	2 631	2 962
Total Creditors	1 517	2 149	2 732	7 107	3 113	3 019	3 508	3 847	3 847
Creditors as a % of Total Cashflow	0%	0%	0%	193%	81%	70%	70%	146%	130%
No. whose Total Creditors are									
less than 25% of their Cash	0	0	0	2	7	6	8	6	6
between 25 and 50% of their Cash	0	0	0	3	4	5	4	2	3
between 50 and 75% of their Cash	0	0	0	1	1	0	1	0	0
more than 75% of their Cash	0	0	0	11	5	6	4	8	8
Other Local Municipalities (Towns) (207)									
Total Cashflow	-	-	-	9 482	7 524	6 481	8 898	5 452	3 993
Total Creditors	1 393	1 932	2 594	10 232	4 248	4 361	4 555	5 637	5 637
Creditors as a % of Total Cashflow	0%	0%	0%	108%	56%	67%	51%	103%	141%
No. whose Total Creditors are									
less than 25% of their Cash	0	0	0	88	131	137	134	117	129
between 25 and 50% of their Cash	0	0	0	19	10	9	16	17	17
between 50 and 75% of their Cash	0	0	0	6	3	9	8	6	7
more than 75% of their Cash	0	0	0	81	64	53	49	51	55
District municipalities(44)									
Total Cashflow	-	-	-	5 281	6 923	7 543	8 618	5 174	5 174
Total Creditors	712	842	1 111	3 550	731	1 191	1 592	1 357	1 357
Creditors as a % of Total Cashflow	0%	0%	0%	67%	11%	16%	18%	26%	26%
No. whose Total Creditors are									
less than 25% of their Cash	0	0	0	16	34	32	34	30	30
between 25 and 50% of their Cash	0	0	0	4	2	1	1	4	4
between 50 and 75% of their Cash	0	0	0	2	2	3	3	1	1
more than 75% of their Cash	0	0	0	21	6	8	6	9	9

Source: National Treasury – Local Government Database

102. Table 11 shows that 2 of the 8 metropolitan municipalities recorded creditors more than 75 per cent of their cash. The metropolitan municipalities with the significant creditors are Tshwane and the City of Johannesburg. Although a slight decline from previous

year's performance (11), 8 secondary cities recorded creditors exceeding 75 per cent of their cash.

103. Local municipalities also have higher levels of creditors, as recorded by 55 municipalities on 30 June 2014. This is a decline from the performance of 81 municipalities reported during 2012/13 financial year. At the district level, 9 districts owe their suppliers significant amounts. The number of districts who owe suppliers significant amounts has declined since the previous report.
104. When considering creditors age analysis at the provincial level (2013/14 fourth quarter Section 71 reports), North West (64 per cent), Free State (56 per cent) and Limpopo (56 per cent) have the highest. Best practises in creditors over the 90 day period are noted in Gauteng and Western Cape provinces at the respective ratios of 1.5 per cent and 2.3 per cent.
105. These findings are consistent with the trends observed in the past, wherein municipalities delay paying creditors at end of the financial year in order to report a 'favourable cash position' and ensure compliance with section 65 of the Municipal Finance Management Act.

Indicator 8: Reliance on national and provincial conditional grants

106. It is a concern that municipalities are dependent on grants to finance capital expenditure. This is because municipalities have lower internally generated funds, which means fewer infrastructure projects are funded from municipality's own revenue revenue sources. A high reliance on grant funding for the capital programme impedes local economic development and places current economic infrastructure at risk. It is widely accepted that cities are the growth engines of the economy and that in addition to providing for asset renewal they must also invest in new infrastructure. This requires appropriate funding of the capital budget. The high dependency on grant funding presents a significant risk.
107. The following table indicates the reliance on national and provincial grants to fund capital budgets of municipalities.

Table 12: Reliance on conditional grants

	Audited Outcome				Section 71 Report for the financial year 2013/14				
	2009/10	2010/11	2011/12	2012/13	Quarter 1: 30 Sep '13	Quarter 2: 31 Dec '13	Quarter 3: 31 Mar '14	Quarter 4: 30 Jun '14	Year to Date 2013/14
Metropolitan municipalities (8)									
No. of munics for which data is unavailable	0	0	0	1	0	0	0	0	0
No. who receive									
less than 30% of revenue from national transfers	2	1	0	0	2	2	4	3	1
between 30% and 75% revenue from national transfers	6	3	2	3	5	4	3	5	7
more than 75% of revenue from national transfers	0	4	6	4	1	2	1	0	0
Secondary cities (19)									
No. of munics for which data is unavailable	0	0	1	1	0	0	0	0	0
No. who receive more than									
less than 30% of revenue from national transfers	5	4	4	4	10	9	13	14	5
between 30% and 75% revenue from national transfers	10	2	3	2	3	5	0	3	9
more than 75% of revenue from national transfers	2	11	9	10	4	3	4	0	3
Other Local Municipalities (Towns) (207)									
No. of munics for which data is unavailable	5	2	2	27	6	6	8	9	3
No. who receive more than									
less than 30% of revenue from national transfers	63	90	89	74	100	97	91	127	22
between 30% and 75% revenue from national transfers	56	40	35	33	26	31	29	22	86
more than 75% of revenue from national transfers	85	77	83	75	77	75	81	51	98
District municipalities(44)									
No. of munics for which data is unavailable	0	3	5	10	3	0	1	1	0
No. who receive more than									
less than 30% of revenue from national transfers	28	24	22	22	25	24	26	30	19
between 30% and 75% revenue from national transfers	4	1	0	0	1	5	4	3	9
more than 75% of revenue from national transfers	12	16	17	12	15	15	13	10	16
All Municipalities (278)									
No. of munics for which data is unavailable	5	5	8	39	9	6	9	10	3
No. who receive more than									
less than 30% of revenue from national transfers	98	119	115	100	137	132	134	174	47
between 30% and 75% revenue from national transfers	76	46	40	38	35	45	36	33	111
more than 75% of revenue from national transfers	99	108	115	101	97	95	99	61	117

Source: National Treasury – Local Government Database

108. The number of municipalities that failed to disclose conditional grant information has declined significantly between 2012/13 and 2013/14 financial years i.e. reduced from 39 to 3. These results are good. However, there is still room for improvement when looking at the level of non-compliance during the course of the year.
109. Among metros, the City of Johannesburg has the lowest reliance (less than 30 per cent) on national transfers when financing its capital budget. This means the City of Johannesburg finances the bulk of its capital budget from own revenue. National Treasury encourages municipalities to rely less on national transfers for the financing of capital budgets.
110. In 3 of the 19 secondary cities, conditional grants accounted for 75 per cent of capital budgets. This is a significant decline on number of municipalities (11) recorded in 2012/13 financial year.
111. A substantial number of local municipalities (i.e. 98) finance the bulk of their revenue using national transfers. With regard to district municipalities, 19 of the 44 districts receive less than 30 per cent of their revenue from conditional grants.

Under-spending of Conditional Grants

112. The table below presents conditional grants performance as at 30 June 2014.

Table 13: Conditional grants transferred from national departments to municipalities

Grant Type	Division of Revenue Act No. 2 of 2013	Total Available 2013/14	Actual expenditure by municipalities	Actual expenditure by National Departments	Municipal expenditure as % of total available allocation	National expenditure as % of total available allocation
Direct Transfers	25 099 947	25 161 227	22 694 209	19 741 228	90.2%	78.5%
Infrastructure	22 017 911	21 999 530	19 925 629	17 319 033	90.6%	78.7%
Capacity and others	3 082 036	3 161 697	2 768 580	2 422 195	87.6%	76.6%
Grants excluded from this publication	9 076 906	9 076 906	8 525 514	-	93.9%	0.0%
Urban Settlements Development Grant	9 076 906	9 076 906	8 525 514	-	93.9%	0.0%
Total	25 099 947	25 161 227	22 694 209	19 741 228	90.2%	78.5%

Source: National Treasury – Local Government Database

113. During 2013/14 financial year, the Division of Revenue Act, 2013 (Act No. 2 of 2013) allocated R30.7 billion in the form of direct and indirect grants to the local government. The direct transfers totalled R25 billion and were comprised of infrastructure and capacity grants at R22 billion and R3 billion respectively.
114. In aggregate municipalities spent R22.7 billion or 90.2 per cent of the total conditional grants, which is comprised of infrastructure and capacity grants at R19.9 billion and R2.8 billion respectively. The administering departments reported lesser results at R19.7 billion or 78.5 per cent on 30 June 2014. This reflects a misalignment in the figures reported by municipalities to National Treasury and the National Transferring Officers.
115. As already highlighted above, persistent under-spending on infrastructure projects could be attributable to the following amongst others:
- Delays in project registration;
 - Absence of project management units;
 - Lack of capacity;
 - Delays with contractors; and
 - Limited multi-year budgeting and political interference in the capital procurement processes.
116. In October 2013, the National Treasury approved roll-over applications amounting to R4.2 billion. As at 30 June 2014, municipalities only managed to spend R1.3 billion or 30.9 per cent and reflect a significant improvement from the performance recorded during 2012/13 financial year.

7 Other issues impacting on the financial health of a municipality

7.1 Significant electricity and water losses

117. The table below presents water and electricity losses incurred by metropolitan municipalities at 30 June 2013.
118. On 30 June 2013, metropolitan municipalities recorded water and electricity losses amounting to R2.6 billion and R3.5 billion respectively. These losses are quite significant and have remained constant between 2011/12 and 2012/13 financial years.
119. In nominal terms, it can be seen that the City of Johannesburg reported the highest losses, with water amounting to R821 million and electricity at R1.4 billion. The lowest losses are recorded at the Nelson Mandela Bay municipality at R208 thousand (water) and R225 thousand (electricity). The figures presented by Nelson Mandela Bay municipality should be interpreted with caution as there are major differences in the amounts recorded between 2010/11 and 2011/12.

Table 14: Water and Electricity losses for the metros as at 30 June 2013

Municipality	Code	Water Losses	Electricity Losses
		R'000	R'000
Nelson Mandela Bay	NMA	208	225
Buffalo City	BUF	102 924	85 345
Mangaung	MAN	116 967	94 907
Ekurhuleni Metro	EKU	557 052	696 441
City of Johannesburg	JHB	820 600	1 391 193
City of Tshwane	TSH	404 550	622 720
eThekweni	ETH	513 000	396 000
City of Cape Town	CPT	66 240	167 329
TOTAL		2 581 541	3 454 160

Source: 2012/13 Audited Annual Financial Statements

120. According to the research undertaken by the National Treasury, it became clear that there is still *scope for reducing the amount of electricity demand and increasing revenue by reducing the losses in the distribution of electricity*². It was also uncovered that in certain instances the electricity losses cannot be prevented as a result of the normal transmission and distribution along the cables. In terms of the international standards, National Treasury uncovered that the acceptable electricity losses is 3.5 per cent (LGBER, 2011). However, these standards may not be appropriate for South Africa as circumstances differ across all municipalities.
121. Significant water losses may be attributed to aging infrastructure, limited expenditure on capital asset renewal and operational repairs and maintenance especially on reticulation infrastructure have been identified as contributing to inefficiencies and leakages.

² 2011 Local Government Budget and Expenditure Review published by the National Treasury.

7.2 Inadequate budgets for repairs and maintenance and asset management

122. MFMA Funding compliance guideline (MFMA Circular No. 42) identifies the repairs and maintenance expenditure level as one of the indicators to be considered during the budget process. This measure is included within the funding measures criteria because a trend that indicates insufficient funds are being committed to asset repair could also indicate that the overall budget is not credible and/or sustainable in the medium to long term because the revenue budget is not being protected. For example, a degrading electricity or water network will not earn revenue if supply cannot be sustained. Repairs and maintenance levels should be examined by trend, benchmarking and engineering recommendations.
123. If funding for repairs and maintenance displays a reducing trend this is evidence that insufficient funds are being committed to asset repair and could also indicate that the overall budget is not credible and/or sustainable in the medium to long term.
124. The Local Government Budgets and Expenditure review publication highlighted the serious repairs and maintenance and renewal backlogs that exist in relation to municipal infrastructure, particularly municipalities' electricity, water reticulation, sewage, storm water and roads systems. It is noted that these backlogs are impacting negatively on the financial sustainability of municipalities, the reliability and quality of municipal services, as well as municipalities' contribution to supporting economic growth.
125. In the past, reporting on repairs and maintenance has been challenging and unreliable. National Treasury has put in place a mechanism of monitoring the reporting on the repairs and maintenance expenditure by introducing a monthly reporting returns to ensure better quality budgeting and reporting on repairs and maintenance expenditure. The return became applicable from 1 July 2012; however the reporting levels are not satisfactory as not all municipalities submit the required information.
126. As soon as a municipality experiences any kind of financial stress, invariably the first category of expenditure to be cut is repairs and maintenance. This is because the impact of not spending on this category is not immediately visible or obvious in the short term. It is also less politically sensitive than say cutting the capital expenditure programme, or reducing the entertainment budget. However, the medium to long term consequences of underspending on repairs and maintenance include:
 - i. Deteriorating reliability and quality of services;
 - ii. Move to more expensive crisis maintenance, rather than planned maintenance;
 - iii. Increasing the future cost of maintenance and refurbishment;
 - iv. Shortening the useful lifespan of assets, necessitating earlier replacement; and
 - v. Reduced revenues due to the failure to sell water and electricity, and other services.
127. Asset Management must be considered a key spending priority for municipalities as municipal infrastructure is pivotal to ensuring sustainable and continuous service delivery. Asset management comprises of two distinct categories of expenditure; asset renewal as part of the capital programme and operational repairs and maintenance of infrastructure. Municipalities are not sufficiently prioritising expenditure on asset management and are subsequently allocating limited funding to these strategic spending areas.

8 Capacity building strategies adopted by government in improving financial management

128. When looking at capacity constraints in local government, a number of factors come to the fore. The main challenges include poorly designed or fragmented programmes. According to the Financial and Fiscal Commission for capacity building programmes to be successful, there is a need to address the underlying challenges. That means government interventions should be aimed at bringing about long-term solutions to ensure that municipalities operate on their own with no intervention from other spheres of government.
129. Initiatives like the Municipal Finance Improvement Programme (MFIP) emanating from the Siyenza Manje Programme have partially turned around the situation at local government. The first phase of this programme occurred between 01 April 2011 to 31 March 2014 under the lead of the Office of the Accountant-General (OAG). The OAG's latest statistics reveal that the programme supported 8 provincial treasuries. In 2014, 75 municipalities were supported while 70 were supported in 2013, and denotes an increase.
130. The capacity building initiatives have some unintended consequences like it was previously argued by National Treasury as follows:
- a. The fact that the deployed 'experts' earn more than people working in municipalities is resulting in an exodus of skilled employees from municipalities to these programmes. This is distorting the market for technical skills and making it more difficult to build permanent capacity in municipalities;
 - b. In practice most experts are *gap filling* rather than capacity building, because there is (a) no-one to train, (b) the focus is on quick-wins in service delivery so there is no time to train, (c) the expert does not have an aptitude for mentoring and training. The result is that support programmes tend to take over the role of municipal officials instead of helping them do their work;
 - c. Individuals and organisations have developed vested interests in the current hands-on-approach. The experts want the programmes to continue – because it is their livelihood. The officials managing the programmes like the power that comes with allocating assistance; and
 - d. Programmes that simply provide additional support to failing municipalities most often treat the immediate symptoms of failure rather the underlying causes, and reward municipalities with weak performance while effectively penalising (through removing support from) strong performers.
131. Over the past seven years, National Treasury has institutionalised two formal engagements with the 17 non-delegated municipalities as part of its monitoring and oversight role; namely the annual Mid-year Budget and Performance Assessment and the Municipal Budget and Benchmarking Engagements.
132. The National Treasury has further requested the provincial treasuries to replicate these processes for all the delegated municipalities. Most of the provincial treasuries are also conducting the municipal budget engagements for the 261 delegated municipalities on an annual basis. Three provincial treasuries have made significant progress in this regard namely; Western Cape, KwaZulu-Natal and Gauteng.

133. The implementation of the annual municipal budget and benchmark assessments has influenced prudent financial management processes in municipalities. Noticeable improvements have been observed in the budgeting and planning frameworks of the 17 delegated municipalities since the inception of these engagements.
134. According to the Auditor-General, the national and provincial oversight for local government by treasuries and cooperative governance departments should be strengthened to improve municipalities' administrative and financial abilities. There is a need for a shift towards enabling municipalities in a more practical and sustainable manner by providing operational guidelines, access to training and availability of specialised skills.
135. To this end, phase II of the Municipal Financial Management Programme has been launched to address the afore-mentioned challenges.

a) Municipal Infrastructure Support Agent (MISA)

136. The objective of the MISA programme is to accelerate service delivery initiatives and enhance capacity in municipalities. This would be done through five programmes, namely:
 - i. Municipal infrastructure assessment and diagnosis of the challenges with a view to find solutions that are viable and sustainable;
 - ii. Provision of municipal infrastructure capacity support;
 - iii. Municipal infrastructure implementation support;
 - iv. Sector capacity development including internship for unemployed graduates within municipalities; and
 - v. Effective monitoring and evaluation.
137. The focus is on (i) strengthening municipal technical capacity for infrastructure delivery; (ii) developing sector wide technical capacity building for local government; (iii) providing funding for the development of municipal built environment technical skills; (iv) professionalising local government officials in compliance with statutory provisions for technical professions; and (v) facilitating lasting partnerships on technical capacity building with public and private sector entities.

b) City Support Programme (CSP)

138. The CSP was designed to address metropolitan municipalities' built environment requirements. The support covers the sectors reflected below:
 - a. urban governance, planning and financing;
 - b. human settlements;
 - c. public transport;
 - d. environmental sustainability; and
 - e. economic development.

139. Other implemented interventions include the following:

- a. technical engagements with cities on the urban network strategy (a spatial strategy that assists cities to identify and design an integrated investment and regulatory programme for spatial transformation);
- b. introduction of the Integrated City Development Grant to provide an incentive for metros to integrate and focus their use of available infrastructure investment (other grants, own revenue, leveraging private sector funding) and regulatory instruments (land use management e.g. zoning) within identified delineated spaces (integration zones) so as to achieve a more compact, inclusive and integrated spatial form;
- c. introduction of Built Environment Performance Indicators to measure and reward cities for their progress in the implementation of spatial delivery plans; and
- d. operationalisation this year of a Project Preparation Facility (PPF) in order to strengthen the planning and design process for catalytic and strategic infrastructure programmes. In addition an Infrastructure Delivery Management System, including toolkits is being developed to ensure that there is proper management of capital programmes and projects.

c) Service delivery performance management indicators tool

140. The White Paper on Local Government (1998) proposed the introduction of performance management systems to the local government, as a tool to measure service delivery.
141. Over the years, a number of government departments have since developed various tools to assist municipalities in reporting non-financial performance. The following departments are amongst other institutions that have developed indicators, The Presidency, DCoG, Department of Water Affairs and Department of Minerals and Energy.
142. The current state of performance indicators is fragmented; therefore there is a need to have a uniform approach. National Treasury in an effort to address this challenge has introduced standard SDBIP indicators which all municipalities will be required to report on a quarterly basis as part of the S71 reporting process. A performance reporting template was introduced in 2011/12 for the metros however; metros are not providing a complete and accurate set of information. Performance reporting has been institutionalized over a three year period, with the current year (2013/14) focused on the metros and the 19 large cities and thereafter the remaining municipalities.

d) Other initiatives targeted at addressing financial management challenges

143. **Municipal budgeting systems** - Municipal budgeting reforms introduced include: (i) the promulgation of Municipal Budget and Reporting Regulations which have standardised the formats for the compilation of the medium-term revenue and expenditure frameworks (budgets) of all municipalities; (ii) implementation of a funding compliance assessment tool which enables municipalities to assess the level of funding of a municipal budget prior to adoption; (iii) issued the "Dummy Budget Guide" to ensure a balance between financial and narrative information contained in the budget document.

144. **Municipal reporting system** - Developed and implemented a comprehensive reporting system for local government through: (i) the creation of a Local Government Database to facilitate the collection and storage of data; (ii) institutionalised a culture of monthly reporting in terms of Section 71 of the MFMA by all 278 municipalities; (iii) routine publication of municipal budget and in-year financial performance; and (iv) continually striving to increase the scope and quality of the reporting.
145. **Local Government Conditional Grant Monitoring System** - In addition to improving the oversight and monitoring of local government conditional grants, a number of initiatives are specifically targeted at strengthening municipal infrastructure grant performance, namely (i) supporting the acceleration of the capital infrastructure projects through the conditional grants pledging process; and (ii) the invoking of section 20 of the Annual Division of Revenue Act in respect of unspent conditional grants.
146. **Local government publications** - The routine publishing of budget and in-year financial performance information for local government has escalated the performance of local government in the public domain. These publications provide information which was previously not readily available. Routine publications include the consolidated MTREF budget information for all municipalities; quarterly Section 71 reports; State of Municipal Finances Report; over and under expenditure report to Parliament; Local Government Budgets and Expenditure Review; and report on the tabling dates of budgets to Parliament.
147. **Capacity building and stakeholder management** - Various initiatives are undertaken around capacity building and stakeholder management on a regular basis, including (i) continuous training, capacity building and support to provincial treasuries, sector departments, SALGA and councillors; (ii) issuing of annual budget circulars and best practice guidelines; and (iii) stakeholder management in ensuring an aligned response to the challenges experienced by local government.
148. **Special Projects** - Current projects aimed at improving the overall performance of local government include (i) the development of a standard classification framework for local government (Standard Chart of Accounts); (ii) financial modelling and costing methodologies in assisting when setting tariffs; (iii) local government revenue management initiatives; (iv) development of a potential system solution for local government and (v) the development of non-financial indicators and benchmarking engagements.
149. **Monitoring tools** - National Treasury in consultation with all provincial treasuries and the Department of Cooperative Governance (DCoG) have developed a number of tools to monitor municipal financial performance and assist municipalities to focus on critical key success factors in financial management, governance, transparency and accountability. The 30 Monitoring Indicators tool is largely a compliance monitoring tool covering key strategic areas that are critical for successful implementation of the MFMA. A self-assessment tool, namely the Financial Management Capability Maturity Model (FMCMM) is currently being piloted in municipalities and will assist them to transcend from mere compliance to full entrenchment of best practices in financial management.
150. **Financial indicators** - To address the inconsistent application and interpretation of financial ratios in the municipal environment NT has developed uniform sets of key municipal financial ratios and norms issued in MFMA Circular No. 71. These ratios and norms should serve as early warning tools and strategic financial decisions on a more sustainable basis.

151. **Section 139 Constitutional Interventions** – On 30 June 2014, 12 interventions were implemented at the following 4 provinces, KwaZulu-Natal (5), Limpopo (1), Mpumalanga (2) and the North West (4). Mogalakwena and Ngaka Modiri Molema municipalities contested the provincial interventions while Maquassi Hills municipality's intervention was terminated on 30 June 2014.

Role of Provincial Treasuries

152. Notwithstanding the varying levels in capacity constraints among the Provincial Treasuries, their roles are stipulated as follows:
- i. Clear monitoring and intervention role;
 - ii. Administer, Guide and Co-ordinate MFMA implementation in the Province;
 - iii. Support capacity building and training within municipalities;
 - iv. National Treasury delegations: additional municipalities to PT's; and
 - v. Strong coordinated working relationship with departments of Local Government.
153. To this end National and provincial governments have a constitutional responsibility to monitor the state of local government financial management and finances, and to provide appropriate support. Where a municipality fails to fulfil its constitutional obligations, there is an obligation on the provincial executive (in the first instance), and then the national executive, to intervene in the municipality to set things in order and protect the interests of the public.

9 Municipalities in financial distress

154. From the above analysis, it can be seen that municipalities with ineffective governance structures, weak revenue management, limited multi-year budgeting, among other things are more likely to be financially distressed.
155. **Annexure A** lists the names of the 86 financially distressed municipalities. The total number of municipalities has improved from the figure reported last year (95). There are also 9 municipalities whose financial status did not improve as they appear for the fourth consecutive year in this list namely; Emalahleni, Maletswai, Metsimaholo, uMshwati, uMngeni, Endumeni, Thaba Chweu, Nkomazi and Lekwa-Teemane.
156. **Annexure B** provides a consolidated analysis of the 278 municipalities' audit outcomes, capital budget performance, current interventions, vacancies in key positions, municipalities identified as financial distressed and the trends thereof.
157. The financial distress list depicts that 74 local municipalities are affected. This represents 36 per cent of local municipalities.
158. The metropolitan municipalities have maintained their financially stable status since 2012/13 financial year. However, four secondary cities have been identified as financially distressed, namely, Emfuleni, Govan Mbeki, Emalahleni and Mbombela municipalities.
159. In the current year, 8 districts have been identified as financially distressed. This represents a marginal improvement from the 9 municipalities reported in the previous year.

160. It also became apparent that 34 municipalities were almost classified as financially distressed. Closer monitoring of these municipalities would be required.

10 Risks posed by the current state of municipal finances

161. The risks associated with the current state of municipal finances fall into the following categories:

a. Service delivery risks

- i. Staff do not get paid – and so refuse to work;
- ii. Bulk services do not get paid for – so services could be cut;
- iii. Contractors and suppliers do not get paid; and
- iv. Repairs and maintenance is invariably among the first expenditures cut placing service delivery at risk, as well as future revenues.

b. Fiscal risks

- i. Poor financial management processes and systems exposes the municipality to corruption;
- ii. The municipalities are failing to properly utilise the resources available to them by failing to collect available revenues; and
- iii. Poor financial management increases the cost of borrowing to municipalities.

c. Political interventions

- i. Some municipalities have established top-heavy “Political offices” which have proven to be unaffordable, often these offices provide political advice on administrative matters thereby undermining and duplicating the role of the municipal manager, chief financial officer and senior managers; and
- ii. Political interference in administrative decision making processes compromises municipal finances, including supply chain management. The interference in some municipalities impedes on revenue collection, this is related to the fact that the political electorate do not want to antagonise the voting communities.

11 Concluding remarks

162. Like the previous State of Local Government and Financial Management publications, the analysis comprehensively discussed the financial health of the 278 municipalities. The assessment has identified strengths and challenges according to the different categories of municipalities.
163. There are few instances where there is improvement, but one may argue that challenges seem to outweigh the positive findings. The common challenges are outlined below:
- i. poor cash flow management;
 - ii. low capital spending on infrastructure (including conditional grants);

- iii. increases in debtors;
 - iv. lack of credible budgeting;
 - v. limited revenue streams; and
 - vi. ineffective governance structures which undermine the administration of municipalities.
164. In this report we also discussed capacity building initiatives adopted by the government over the past few years and provided an overview of the recently introduced municipal development programmes. In combating the capacity challenges, the government channelled massive funding towards this cause and the results are still unsatisfactory.
165. It also became apparent that the level of vacancies in key managerial positions is more prevalent in Mpumalanga and Eastern Cape provinces. In these provinces there were a number of instances where both the Municipal Manager and Chief Financial Officers were vacant.
166. The financial distress list has decreased from 95 to 86 municipalities and is still regarded as high. The 2013/14 report utilised the methodology applied in the past publications in order to determine which municipality is in financial distress. It is envisaged that municipalities will utilise the information for their benefit and seek ways of mitigating financial risk.
167. The Department of Cooperative Governance (DCoG) has also recently undertaken an overall analysis of municipal performance based on various indicators including but not limited to governance, general compliance and service delivery performance. Based on this analysis, DCoG identified 85 municipalities at risk owing to a general underperformance across these measures. Importantly, there is a limited correlation between the 86 municipalities identified as being in financial distress in this publication to the 85 identified by DCoG. The National Treasury in collaboration with the DCoG will undertake an exercise aimed at aligning these findings.
168. Lastly, the following annexures have been discussed and included in the report:
- i. Annexure A : Municipalities in financial distress.
 - ii. Annexure B : Consolidated audit outcomes, interventions, vacancies and distress list.
 - iii. Annexure C : Consolidated assessment results on the metros.

Annexure A

Municipalities in financial distress – 30 June 2014 (the highlighted lines indicate the municipalities identified as being in financial distress).

Municipality	Code	T1 - Cash Coverage	T2 - Cash Balances	T3 - Reliance on Capital	T4 - Overspending	T5 - Underspending	T6 - Debtors Growth	T7 - Debtors % Own	T8 - Creditors % Cash	Total	Result
Nelson Mandela Bay	NMA	1	2	2	3	2	1	3	1	15	-
Ekurhuleni Metro	EKU	1	1	2	3	2	1	3	1	14	-
City Of Johannesburg	JHB	1	2	2	3	2	1	3	3	17	-
City Of Tshwane	TSH	1	3	2	3	1	1	3	3	17	-
eThekweni	ETH	1	2	2	3	3	1	2	1	15	-
Cape Town	CPT	1	2	1	3	3	1	2	1	14	-
Buffalo City	BUF	1	1	1	3	2	1	2	1	12	-
Mangaung	MAN	1	2	1	3	2	1	3	1	14	-
Matjhabeng	FS184	1	2	1	3	1	2	3	1	14	-
Emfuleni	GT421	2	3	3	3	3	1	3	3	21	Yes
Mogale City	GT481	1	3	1	3	2	1	3	3	17	-
Msunduzi	KZN225	1	3	2	3	3	1	1	3	17	-
Newcastle	KZN252	1	2	1	3	2	1	3	1	14	-
uMhlathuze	KZN282	1	2	1	1	3	1	1	1	11	-
Polokwane	LIM354	1	2	1	3	3	1	3	1	15	-
Govan Mbeki	MP307	2	3	1	3	3	1	3	3	19	Yes
Emalahleni (Mp)	MP312	3	3	1	3	3	3	3	1	20	Yes
Steve Tshwete	MP313	1	3	2	3	3	1	1	3	17	-
Mbombela	MP322	2	3	2	3	3	1	2	3	19	Yes
Madibeng	NW372	1	3	1	3	1	1	3	3	16	-
Rustenburg	NW373	2	3	1	3	3	1	3	1	17	-
Tlokwe	NW402	2	3	1	3	3	1	1	1	15	-
City Of Matlosana	NW403	1	3	1	1	3	1	3	3	16	-
Sol Plaatje	NC091	1	2	1	3	2	1	3	1	14	-
Drakenstein	WC023	1	2	1	3	2	1	2	3	15	-
Stellenbosch	WC024	1	1	1	3	2	1	2	1	12	-
George	WC044	1	1	1	3	2	1	1	1	11	-
Camdeboo	EC101	3	2	1	3	2	1	3	1	17	-
Blue Crane Route	EC102	1	2	3	3	2	1	3	1	16	-
Ikwezi	EC103	1	3	3	3	3	1	3	3	20	Yes
Makana	EC104	1	1	1	3	3	1	1	1	12	-
Ndlambe	EC105	1	3	3	2	3	1	2	3	18	Yes
Sundays River Valley	EC106	1	3	3	3	2	1	1	3	17	-
Baviaans	EC107	2	3	3	3	1	1	1	3	17	-
Kouga	EC108	2	3	1	3	3	1	2	3	18	Yes
Kou-Kamma	EC109	1	2	3	3	3	1	1	1	15	-
Mbashe	EC121	1	1	1	3	3	1	3	1	14	-
Mquma	EC122	1	1	3	3	3	1	2	1	15	-
Great Kei	EC123	3	3	1	3	3	2	3	1	19	Yes
Amahlathi	EC124	3	3	1	3	3	1	3	1	18	Yes
Ngqushwa	EC126	1	1	1	3	3	1	3	1	14	-
Nkonkobe	EC127	1	3	3	3	3	1	1	1	16	-
Nxuba	EC128	2	3	1	3	3	1	3	3	19	Yes
Inxuba Yethemba	EC131	3	3	1	3	3	1	1	1	16	-
Tsolwana	EC132	1	1	3	2	3	1	1	1	13	-
Inkwanca	EC133	1	2	1	3	3	1	3	3	17	-
Lukhanji	EC134	1	1	1	3	3	1	3	1	14	-
Intsika Yethu	EC135	1	3	1	3	3	1	1	1	14	-
Emalahleni (Ec)	EC136	1	2	2	3	2	1	3	1	15	-
Engcobo	EC137	1	1	1	3	3	1	1	1	12	-
Sakhisizwe	EC138	1	2	3	3	3	1	1	1	15	-
Elundini	EC141	1	3	3	3	2	1	1	3	17	-
Senqu	EC142	1	1	2	3	2	1	2	1	13	-
Maletswai	EC143	3	3	3	3	3	1	2	1	19	Yes
Gariep	EC144	1	3	1	3	3	1	3	3	18	Yes
Ngquza Hills	EC153	1	1	1	3	3	3	1	1	14	-
Port St Johns	EC154	1	2	1	3	3	3	3	1	17	-
Nyandeni	EC155	1	1	1	3	3	1	3	1	14	-
Mhlontlo	EC156	3	3	1	3	3	1	2	3	19	Yes
King Sabata Dalindyebo	EC157	3	3	3	3	3	1	3	1	20	Yes
Matatiele	EC441	1	1	1	3	3	1	3	1	14	-
Umtzimvubu	EC442	3	3	1	3	3	1	3	1	18	Yes
Mbizana	EC443	1	1	3	3	2	1	2	1	14	-
Ntabankulu	EC444	1	1	1	3	1	1	3	1	12	-
Letsemeng	FS161	1	1	1	3	3	1	1	1	12	-
Kopanong	FS162	3	3	1	3	3	1	1	1	16	-
Mohokare	FS163	2	3	1	3	3	1	1	1	15	-
Naledi (Fs)	FS164	1	3	3	3	3	3	3	3	22	Yes
Masilonyana	FS181	1	3	1	3	3	1	3	3	18	Yes
Tokologo	FS182	2	3	1	1	3	3	1	1	15	-
Tswelopele	FS183	2	3	3	3	2	1	3	1	18	Yes
Nala	FS185	1	3	1	3	3	3	3	3	20	Yes
Setsoto	FS191	1	3	1	3	2	1	3	1	15	-
Dihlabeng	FS192	1	2	1	3	2	1	3	2	15	-
Nketoana	FS193	3	3	1	3	3	1	3	1	18	Yes
Maluti-a-Phofung	FS194	3	3	1	3	3	2	3	1	19	Yes
Phumelela	FS195	2	3	1	3	3	2	3	1	18	Yes
Mantsopa	FS196	3	3	1	3	1	1	3	1	16	-
Moghaka	FS201	1	3	1	3	3	1	1	3	16	-
Ngwathe	FS203	1	3	1	1	2	1	1	3	13	-
Metsimaholo	FS204	3	3	1	3	3	1	3	1	18	Yes
Mafube	FS205	3	3	1	3	3	1	3	1	18	Yes
Midvaal	GT422	1	2	1	3	2	1	2	1	13	-
Lesedi	GT423	1	3	3	3	3	1	3	3	20	Yes
Randfontein	GT482	1	3	1	3	3	1	3	3	18	Yes
Westonaria	GT483	1	3	1	3	2	1	3	3	17	-
Merafong City	GT484	1	1	1	3	3	1	3	1	14	-
Vulamehlo	KZN211	3	3	3	3	3	1	3	1	20	Yes
Umdoni	KZN212	1	3	1	3	3	1	3	3	18	Yes
Umzumbe	KZN213	1	1	3	3	1	1	1	1	12	-
uMuziwabantu	KZN214	1	3	1	3	3	1	2	1	15	-
Ezinqoleni	KZN215	1	1	3	3	3	3	2	1	17	-
Hibiscus Coast	KZN216	1	2	1	3	3	1	2	1	14	-
uMshwathi	KZN221	1	3	1	3	3	1	3	3	18	Yes

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uMngeni	KZN222	1	3	3	3	2	1	3	3	19	Yes
Mpofana	KZN223	1	1	3	3	3	1	3	1	16	-
Impendle	KZN224	1	2	3	1	3	1	1	1	13	-
Mkhambathini	KZN226	1	2	3	3	3	1	2	1	16	-
Richmond	KZN227	3	3	1	3	3	1	2	1	17	-
Emnambithi/Ladysmith	KZN232	1	1	1	3	1	1	3	1	12	-
Indaka	KZN233	1	1	3	3	3	1	1	1	14	-
Umtshezi	KZN234	1	3	1	3	3	1	3	3	18	Yes
Okhahlamba	KZN235	1	1	1	3	3	1	2	1	13	-
Imbabazane	KZN236	3	3	1	2	3	1	1	1	15	-
Endumeni	KZN241	1	3	2	3	3	1	3	3	19	Yes
Nquthu	KZN242	1	1	3	3	3	1	3	1	16	-
Msinga	KZN244	1	1	1	3	2	1	2	1	12	-
Umvoti	KZN245	1	1	1	3	3	1	2	1	13	-
eMadlangeni	KZN253	1	2	1	3	3	1	3	1	15	-
Dannhauser	KZN254	1	3	1	3	3	1	3	1	16	-
eDumbe	KZN261	1	3	2	3	3	1	3	3	19	Yes
uPhongolo	KZN262	3	3	3	3	3	1	3	1	20	Yes
Abaqulusi	KZN263	3	3	1	3	3	1	3	1	18	Yes
Nongoma	KZN265	1	3	2	3	2	1	3	3	18	Yes
Ulundi	KZN266	3	3	3	3	3	1	3	1	20	Yes
Umlabuyalingana	KZN271	1	1	1	3	2	1	2	1	12	-
Jozini	KZN272	1	3	2	3	2	1	3	2	17	-
The Big 5 False Bay	KZN273	3	3	3	3	3	1	3	1	20	Yes
Hlabisa	KZN274	1	3	1	3	3	1	1	1	14	-
Mtubatuba	KZN275	1	2	1	3	3	1	1	2	14	-
Mfolozi	KZN281	1	3	1	1	3	1	2	3	15	-
Ntambanana	KZN283	1	1	3	3	2	1	1	1	13	-
uMlalazi	KZN284	1	3	3	3	3	1	2	3	19	Yes
Mthonjaneni	KZN285	1	1	2	3	3	1	3	1	15	-
Nkandla	KZN286	2	3	1	3	3	1	3	1	17	-
Mandeni	KZN291	1	2	1	2	3	1	3	1	14	-
KwaDukuza	KZN292	1	1	1	3	3	1	1	1	12	-
Ndwedwe	KZN293	3	3	2	3	3	1	2	3	20	Yes
Maphumulo	KZN294	1	1	1	3	3	1	3	1	14	-
Ingwe	KZN431	2	3	2	3	3	1	2	1	17	-
Kwa Sani	KZN432	1	3	3	3	3	1	2	3	19	Yes
Greater Kokstad	KZN433	1	3	1	3	3	1	2	3	17	-
Ubuhlebezwe	KZN434	3	3	3	3	3	1	3	1	20	Yes
Umzimkhulu	KZN435	1	1	1	1	1	1	1	1	8	-
Greater Giyani	LIM331	1	1	1	3	2	1	3	1	13	-
Greater Letaba	LIM332	1	1	2	3	3	1	3	1	15	-
Greater Tzaneen	LIM333	2	3	1	3	3	1	1	1	15	-
Ba-Phalaborwa	LIM334	3	3	2	3	2	1	3	3	20	Yes
Maruleng	LIM335	1	1	2	3	2	1	3	1	14	-
Musina	LIM341	1	2	1	1	3	1	1	1	11	-
Mutale	LIM342	3	3	3	2	3	1	2	1	18	Yes
Thulamela	LIM343	1	1	1	3	3	1	3	1	14	-
Makhado	LIM344	1	3	1	3	1	1	3	1	14	-
Blouberg	LIM351	1	2	1	3	3	1	1	1	13	-
Aganang	LIM352	1	1	1	3	3	1	3	1	14	-
Molemole	LIM353	1	3	1	3	3	3	3	1	18	Yes
Lepelle-Nkumpi	LIM355	1	1	2	3	3	1	3	1	15	-
Thabazimbi	LIM361	3	3	1	3	3	1	3	1	18	Yes
Lephalale	LIM362	1	1	3	3	3	1	1	1	14	-
Mookgopong	LIM364	2	1	3	3	3	1	1	3	17	-
Modimolle	LIM365	1	2	1	3	3	1	3	1	15	-
Bela Bela	LIM366	1	1	3	3	3	1	3	1	16	-
Mogalakwena	LIM367	2	3	1	3	3	1	3	1	17	-
Ephraim Mogale	LIM471	1	1	1	3	3	1	3	1	14	-
Elias Motsoaledi	LIM472	1	2	3	3	3	1	3	1	17	-
Makhuduthamaga	LIM473	3	3	1	3	3	1	3	1	18	Yes
Fetakgomo	LIM474	1	2	3	3	3	3	3	1	19	Yes
Greater Tubatse	LIM475	1	2	3	3	3	1	1	1	15	-
Albert Luthuli	MP301	2	3	1	3	3	1	3	1	17	-
Msukaligwa	MP302	3	3	1	3	3	1	3	1	18	Yes
Mkhondo	MP303	2	3	1	3	2	1	3	1	16	-
Pixley Ka Seme	MP304	1	1	1	3	2	1	3	1	13	-
Lekwa	MP305	1	3	1	3	2	1	3	3	17	-
Dipaleseng	MP306	2	3	3	3	3	1	3	3	21	Yes
Victor Khanye	MP311	1	3	1	1	1	2	3	3	15	-
Emakhazeni	MP314	1	1	1	3	3	2	3	2	16	-
Thembeisile	MP315	1	2	1	3	3	1	3	1	15	-
Dr J.S. Moroka	MP316	1	2	1	3	3	1	3	1	15	-
Thaba Chweu	MP321	3	3	3	3	2	1	3	1	19	Yes
Umjindi	MP323	1	3	1	3	1	1	3	3	16	-
Nkomazi	MP324	1	3	1	3	3	1	3	3	18	Yes
Bushbuckridge	MP325	3	3	1	3	1	1	3	1	16	-
Richtersveld	NC061	1	3	1	3	3	1	3	3	18	Yes
Nama Khoi	NC062	1	3	1	3	2	1	3	3	17	-
Kamiesberg	NC064	3	3	3	3	3	1	1	1	18	Yes
Hantam	NC065	2	3	3	3	1	1	3	3	19	Yes
Karoo Hoogland	NC066	3	3	2	3	2	1	3	1	18	Yes
Khai-Ma	NC067	1	2	2	3	3	1	3	3	18	Yes
Ubuntu	NC071	2	3	3	3	3	1	3	3	21	Yes
Umsobomvu	NC072	1	2	3	3	3	3	3	1	19	Yes
Emthanjeni	NC073	3	3	1	3	2	1	3	1	17	-
Kareeberg	NC074	1	1	1	3	3	1	1	1	12	-
Renosterberg	NC075	1	2	1	3	3	1	3	3	17	-
Thembeilhe	NC076	3	3	1	3	3	1	3	1	18	Yes
Siyathemba	NC077	1	1	3	3	3	2	3	2	18	Yes
Siyancuma	NC078	3	3	2	3	3	1	3	1	19	Yes
Mier	NC081	1	3	3	3	3	1	3	3	20	Yes
IKai! Garib	NC082	3	3	1	1	3	1	1	1	14	-
//Khara Hais	NC083	3	3	3	3	3	1	1	1	18	Yes
IKheis	NC084	3	3	3	3	2	3	3	1	21	Yes
Tsantsabane	NC085	1	1	1	3	3	1	1	3	14	-
Kgatelopele	NC086	1	1	1	3	3	1	3	1	14	-
Dikgatlong	NC092	1	2	1	3	3	2	3	1	16	-
Magareng	NC093	3	3	1	3	3	1	3	1	18	Yes
Phokwane	NC094	1	1	1	3	1	3	3	1	14	-
Moshaweng	NC451	1	3	1	1	3	1	3	1	14	-
Ga-Segonyana	NC452	1	3	3	3	2	1	2	1	16	-
Gamagara	NC453	3	3	3	3	3	1	1	1	18	Yes

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Moretele	NW371	2	3	3	3	1	2	3	3	20	Yes
Kgetlengrivier	NW374	1	3	1	3	3	1	3	3	18	Yes
Moses Kotane	NW375	1	1	1	3	2	1	3	1	13	-
Ratlou	NW381	1	2	1	3	3	3	2	1	16	-
Tswaing	NW382	2	3	1	3	1	1	1	1	13	-
Mafikeng	NW383	1	1	1	3	3	1	3	2	15	-
Ditsobotla	NW384	1	3	1	3	3	1	3	3	18	Yes
Ramotshere Moiloa	NW385	1	3	1	3	3	1	3	3	18	Yes
Kagisano/ Molopo	NW397	1	2	3	3	3	1	1	1	15	-
Naledi (Nw)	NW392	1	3	1	3	3	1	3	3	18	Yes
Mamusa	NW393	3	3	1	3	3	1	3	1	18	Yes
Greater Taung	NW394	1	2	3	3	3	1	2	1	16	-
Lekwa-Teemane	NW396	3	3	1	3	2	3	3	1	19	Yes
Ventersdorp	NW401	1	2	2	3	2	1	3	3	17	-
Maquassi Hills	NW404	1	3	1	3	3	1	3	3	18	Yes
Matzikama	WC011	2	3	1	3	3	1	3	1	17	-
Cederberg	WC012	2	3	1	3	3	1	3	3	19	Yes
Bergrivier	WC013	1	2	2	3	2	1	3	1	15	-
Saldanha Bay	WC014	1	1	1	3	3	1	2	1	13	-
Swartland	WC015	1	1	1	3	3	1	1	1	12	-
Witzenberg	WC022	1	2	3	3	3	1	3	1	17	-
Breede Valley	WC025	1	2	1	3	2	1	2	1	13	-
Langeberg	WC026	1	2	2	3	2	1	1	1	13	-
Theewaterskloof	WC031	1	2	3	3	2	1	3	1	16	-
Overstrand	WC032	1	3	1	3	1	1	1	1	12	-
Cape Agulhas	WC033	1	3	1	3	3	1	1	2	15	-
Swellendam	WC034	2	3	3	3	3	1	2	1	18	Yes
Kannaland	WC041	3	3	1	3	3	1	3	1	18	Yes
Hessequa	WC042	1	2	1	3	3	1	2	1	14	-
Mossel Bay	WC043	1	1	1	3	2	1	1	1	11	-
Oudtshoorn	WC045	1	3	1	3	1	1	3	1	14	-
Bitou	WC047	1	3	2	3	1	1	2	1	14	-
Knysna	WC048	1	3	2	1	2	1	2	3	15	-
Laingsburg	WC051	1	2	3	3	2	1	2	1	15	-
Prince Albert	WC052	1	1	2	3	1	3	2	1	14	-
Beaufort West	WC053	1	2	1	3	2	1	3	1	14	-
Cacadu	DC10	1	1	1	3	3	1	1	1	12	-
Amathole	DC12	1	1	1	3	2	1	3	1	13	-
Chris Hani	DC13	1	1	1	3	3	1	1	1	12	-
Joe Gqabi	DC14	1	3	3	3	3	1	2	3	19	Yes
O .R. Tambo	DC15	1	1	1	3	2	1	1	1	11	-
Alfred Nzo	DC44	3	3	3	3	3	1	3	1	20	Yes
Xhariep	DC16	3	3	3	3	3	1	2	1	19	Yes
Lejweleputswa	DC18	1	2	1	3	1	3	3	1	15	-
Thabo Mofutsanyana	DC19	3	3	1	3	3	3	3	1	20	Yes
Fezile Dabi	DC20	1	2	1	3	3	1	1	1	13	-
Sedibeng	DC42	1	3	1	3	2	1	1	3	15	-
West Rand	DC48	1	2	1	1	3	1	2	1	12	-
Ugu	DC21	1	1	1	3	1	1	3	1	12	-
uMgungundlovu	DC22	2	3	1	3	3	1	3	1	17	-
Uthukela	DC23	1	1	3	3	2	1	3	1	15	-
Umzinyathi	DC24	1	3	3	3	3	1	3	3	20	Yes
Amajuba	DC25	3	3	1	3	3	3	3	1	20	Yes
Zululand	DC26	1	2	1	1	2	1	1	1	10	-
Umkhanyakude	DC27	3	3	3	1	2	1	3	1	17	-
uThungulu	DC28	1	1	2	3	3	1	2	1	14	-
iLembe	DC29	1	1	2	3	2	1	3	1	14	-
Sisonke	DC43	1	3	1	3	1	1	3	1	14	-
Mopani	DC33	2	2	3	3	3	1	3	3	20	Yes
Vhembe	DC34	1	1	1	3	2	1	2	1	12	-
Capricorn	DC35	1	1	2	3	3	1	3	3	17	-
Waterberg	DC36	1	1	1	3	3	1	1	1	12	-
Greater Sekhukhune	DC47	1	2	3	3	3	1	1	3	17	-
Gert Sibande	DC30	1	3	1	3	2	1	2	3	16	-
Nkangala	DC31	1	1	1	3	3	1	3	1	14	-
Ehlanzeni	DC32	1	2	1	3	3	1	1	1	13	-
Bojanala Platinum	DC37	1	2	1	3	3	1	1	2	14	-
Ngaka Modiri Molema	DC38	1	3	1	3	2	1	1	3	15	-
Dr Ruth Segomotsi	DC39	1	2	3	2	3	1	1	1	14	-
Dr Kenneth Kaunda	DC40	1	3	1	3	3	1	1	1	14	-
John Taolo Gaetsewe	DC45	2	3	1	1	3	1	3	1	15	-
Namakwa	DC6	1	3	1	3	2	1	1	1	13	-
Pixley Ka Seme	DC7	1	3	1	3	3	3	1	3	18	Yes
Siyanda	DC8	1	3	3	3	1	3	1	1	16	-
Frances Baard	DC9	1	1	1	3	3	1	2	1	13	-
West Coast	DC1	1	1	3	3	3	1	1	1	14	-
Cape Winelands DM	DC2	1	1	1	3	3	3	1	1	14	-
Overberg	DC3	1	2	1	3	2	1	1	1	12	-
Eden	DC4	1	2	1	3	3	1	2	1	14	-
Central Karoo	DC5	1	3	1	1	1	1	1	1	10	-
		278	278	278	278	278	278	278	278	86	

Consolidated audit outcomes, interventions, vacancies and distress list

Annexure B

Municipality Name	Mun_Cod e	Financia l Distress 2013/14	Audit outcomes 2012/13	Persistent Capital Underspendin g 2012-15	MM vacant	CFO vacancy	Section 139 Interventions June 2014	MFIP Support	Persistent Distress
Nelson Mandela	NMA	-	Qualified	-	Permanent	Acting			
Ekurhuleni Metro City Of	EKU	-	Unqualified with findings	-	Permanent	Permanent			1
Johannesburg City Of Tshwane	JHB	-	Unqualified with findings	-	Permanent	Permanent			
eThekweni	ETH	-	Unqualified with findings	-	Permanent	Permanent			
Cape Town	CPT	-	Unqualified with no findings	-	Permanent	Permanent			
Buffalo City	BUF	-	Qualified	Yes	Acting	Acting			
Mangaung	MAN	-	Qualified	Yes	Permanent	Permanent			2
Matjhabeng	FS184	-	Disclaimer	-	Acting	Permanent			1
Emfuleni	GT421	Yes	Unqualified with findings	Yes	Permanent	Permanent			3
Mogale City	GT481	-	Unqualified with findings	-	Permanent	Permanent			1
Msunduzi	KZN225	-	Qualified	-	Permanent	Permanent		Yes	2
Newcastle	KZN252	-	Qualified	Yes	Permanent	Acting			
uMhlathuze	KZN282	-	Unqualified with no findings	Yes	Permanent	Permanent			
Polokwane	LIM354	-	Audit outstanding	-	Permanent	Permanent		Yes	2
Govan Mbeki	MP307	Yes	Qualified	Yes	Permanent	Permanent			2
Emalahleni (Mp)	MP312	Yes	Disclaimer	-	Acting	Permanent	Yes	Yes	4
Steve Tshwete	MP313	-	Unqualified with no findings	Yes	Permanent	Permanent			
Mbombela	MP322	Yes	Unqualified with findings	Yes	Acting	Acting			2
Madibeng	NW372	-	Qualified	-	Acting	Permanent			2
Rustenburg	NW373	-	Qualified	Yes	Acting	Permanent			
Tlokwe	NW402	-	Unqualified with findings	Yes	Permanent	Acting			
City Of Matlosana	NW403	-	Disclaimer	Yes	Permanent	Permanent	Yes	Yes	1
Sol Plaatje	NC091	-	Qualified	Yes	Permanent	Permanent			
Drakenstein	WC023	-	Unqualified with findings	Yes	Permanent	Permanent			
Stellenbosch	WC024	-	Unqualified with findings	Yes	Permanent	Permanent			
George	WC044	-	Unqualified with no finding	-	Permanent	Permanent			
Camdeboo	EC101	-	Qualified	-	Permanent	Permanent			
Blue Crane Route	EC102	-	Qualified	-	Permanent	Permanent			
Ikwezi	EC103	Yes	Disclaimer	Yes	Acting	Permanent		Yes	3
Makana	EC104	-	Audit outstanding	-	Acting	Acting			2
Ndlambe	EC105	Yes	Qualified	-	Permanent	Permanent			2
Sundays River Valley	EC106	-	Audit outstanding	Yes	Permanent	Permanent		Yes	1
Baviaans	EC107	-	Qualified	-	Permanent	Permanent		Yes	
Kouga	EC108	Yes	Qualified	-	Permanent	Permanent			2
Kou-Kamma	EC109	-	Qualified	Yes	Permanent	Permanent		Yes	2
Mbhashe	EC121	-	Qualified	Yes	Acting	Permanent			
Mnquma	EC122	-	Qualified	Yes	Permanent	Permanent			2
Great Kei	EC123	Yes	Adverse	Yes	Acting	Acting			1
Amahlathi	EC124	Yes	Unqualified with findings	-	Permanent	Permanent			1
Ngqushwa	EC126	-	Disclaimer	Yes	Permanent	Acting			1
Nkonkobe	EC127	-	Qualified	-	Permanent	Acting		Yes	
Nxuba	EC128	Yes	Qualified	-	Permanent	Permanent		Yes	3
Inxuba Yethemba	EC131	-	Disclaimer	-	Permanent	Acting			2
Tsolwana	EC132	-	Unqualified with findings	-	Permanent	Acting			
Inkwanca	EC133	-	Qualified	-	Permanent	Acting			1
Lukhanji	EC134	-	Disclaimer	Yes	Acting	Acting			
Intsika Yethu	EC135	-	Adverse	-	Permanent	Permanent			1
Emalahleni (Ec)	EC136	-	Disclaimer	Yes	Permanent	Permanent		Yes	2
Engcobo	EC137	-	Unqualified with findings	Yes	Permanent	Permanent			1
Sakhisizwe	EC138	-	Qualified	-	Permanent	Permanent		Yes	
Elundini	EC141	-	Unqualified with findings	Yes	Permanent	Acting		Yes	1
Senqu	EC142	-	Unqualified with findings	-	Permanent	Permanent			
Maletswai	EC143	Yes	Qualified	Yes	Permanent	Permanent		Yes	4
Gariep	EC144	Yes	Adverse	-	Permanent	Permanent			2
Ngqiza Hills	EC153	-	Unqualified with findings	-	Permanent	Permanent			
Port St Johns	EC154	-	Qualified	-	Acting	Acting			1
Nyandeni	EC155	-	Unqualified with findings	-	Permanent	Permanent			
Mhlontlo	EC156	Yes	Adverse	Yes	Acting	Acting			2
King Sabata Dalindyebo	EC157	Yes	Disclaimer	-	Acting	Permanent			3
Matatiele	EC441	-	Unqualified with findings	Yes	Permanent	Permanent			2
Umtshwani	EC442	Yes	Unqualified with findings	-	Permanent	Permanent			1
Mbizana	EC443	-	Adverse	-	Permanent	Permanent			
Ntabankulu	EC444	-	Qualified	-	Acting	Permanent			2
Letsemeng	FS161	-	Qualified	-	Acting	Permanent		Yes	
Kopanong	FS162	-	Qualified	-	Permanent	Permanent		Yes	3
Mohokare	FS163	-	Qualified	-	Permanent	Permanent		Yes	3
Naledi (Fs)	FS164	Yes	Disclaimer	Yes	Permanent	Permanent		Yes	2
Masilonyana	FS181	Yes	Qualified	-	Permanent	Permanent		Yes	3
Tokologo	FS182	-	Qualified	-	Permanent	Permanent		Yes	1
Tswelopele	FS183	Yes	Unqualified with findings	-	Permanent	Permanent		Yes	2
Nala	FS185	Yes	Audit outstanding	Yes	Permanent	Permanent		Yes	2
Setso	FS191	-	Qualified	-	Permanent	Permanent		Yes	2
Dihlabeng	FS192	-	Unqualified with findings	-	Acting	Permanent			
Nketoana	FS193	Yes	Unqualified with findings	Yes	Permanent	Permanent		Yes	2
Maluti-a-Phofung	FS194	Yes	Disclaimer	Yes	Permanent	Permanent		Yes	3
Phumelela	FS195	Yes	Disclaimer	-	Permanent	Permanent		Yes	3
Mantsopa	FS196	-	Disclaimer	-	Permanent	Permanent			2
Moghaka	FS201	-	Disclaimer	-	Permanent	Permanent		Yes	2
Ngwathe	FS203	-	Disclaimer	Yes	Permanent	Acting		Yes	1
Metsimaholo	FS204	Yes	Qualified	Yes	Permanent	Permanent		Yes	4
Mafube	FS205	Yes	Disclaimer	-	Permanent	Permanent			2
Midvaal	GT422	-	Unqualified with findings	-	Permanent	Permanent			1
Lesedi	GT423	Yes	Unqualified with findings	Yes	Permanent	Permanent			3
Randfontein	GT482	Yes	Qualified	Yes	Acting	Acting			3
Westonaria	GT483	-	Qualified	-	Permanent	Permanent			1
Merafong City	GT484	-	Unqualified with findings	-	Acting	Permanent			
Vulamehlo	KZN211	Yes	Disclaimer	Yes	Permanent	Permanent		Yes	2
Umdoni	KZN212	Yes	Unqualified with findings	Yes	Permanent	Permanent			3
Umtshwani	KZN213	-	Unqualified with findings	-	Permanent	Permanent			
uMuziwabantu	KZN214	-	Unqualified with findings	Yes	Permanent	Permanent			3
Ezinqoleni	KZN215	-	Unqualified with findings	-	Permanent	Permanent			
Hibiscus Coast	KZN216	-	Unqualified with findings	-	Permanent	Permanent			
uMshwathi	KZN221	Yes	Unqualified with findings	Yes	Acting	Permanent			4
uMngeni	KZN222	Yes	Unqualified with findings	-	Acting	Acting			4

The state of local government finances and financial management as at 30 June 2014

Mpofana	KZN223	-	Qualified	Yes	Permanent	Permanent		Yes		1
Impendle	KZN224	-	Unqualified with findings	-	Permanent	Permanent		Yes		1
Mkhambathini	KZN226	-	Unqualified with findings	-	Acting	Acting		Yes		
Richmond	KZN227	-	Unqualified with findings	Yes	Permanent	Permanent				2
Emnambithi/Ladysmith	KZN232	-	Unqualified with findings	-	Permanent	Permanent				
Indaka	KZN233	-	Unqualified with findings	Yes	Permanent	Permanent	Yes			1
Umtshezi	KZN234	Yes	Qualified	Yes	Permanent	Permanent				2
Okhahlamba	KZN235	-	Unqualified with no findings	-	Permanent	Permanent				
Imbabazane	KZN236	-	Unqualified with findings	-	Permanent	Acting	Yes	Yes		
Endumeni	KZN241	Yes	Unqualified with findings	Yes	Permanent	Acting				4
Nquthu	KZN242	-	Unqualified with findings	-	Permanent	Permanent		Yes		
Misinga	KZN244	-	Unqualified with no findings	-	Permanent	Permanent				1
Umvoti	KZN245	-	Unqualified with findings	Yes	Permanent	Permanent	Yes			
eMadiangeni	KZN253	-	Unqualified with findings	-	Permanent	Acting				2
Dannhauser	KZN254	-	Unqualified with findings	Yes	Permanent	Permanent				2
eDumbe	KZN261	Yes	Qualified	-	Permanent	Permanent				3
uPhongolo	KZN262	Yes	Qualified	Yes	Permanent	Permanent				3
Abaqulusi	KZN263	Yes	Qualified	-	Acting	Acting	Yes			2
Nongoma	KZN265	Yes	Qualified	-	Permanent	Permanent				3
Ulundi	KZN266	Yes	Unqualified with findings	-	Permanent	Permanent				3
Umlabuyalingana	KZN271	-	Unqualified with findings	Yes	Permanent	Permanent				2
Jozini	KZN272	-	Unqualified with findings	-	Acting	Acting		Yes		1
The Big 5 False Bay	KZN273	Yes	Unqualified with findings	-	Permanent	Permanent				2
Hlabisa	KZN274	-	Qualified	-	Permanent	Permanent				1
Mtubatuba	KZN275	-	Qualified	Yes	Permanent	Permanent	Yes			2
Mfolozi	KZN281	-	Unqualified with findings	-	Permanent	Permanent				2
Ntambanana	KZN283	-	Unqualified with no findings	Yes	Acting	Permanent				
uMalazi	KZN284	Yes	Unqualified with findings	Yes	Permanent	Permanent				3
Mthonjaneni	KZN285	-	Unqualified with findings	Yes	Permanent	Permanent				
Nkandla	KZN286	-	Unqualified with findings	-	Permanent	Permanent				
Mandeni	KZN291	-	Unqualified with findings	Yes	Permanent	Permanent				
KwaDukuza	KZN292	-	Unqualified with findings	Yes	Permanent	Permanent				
Ndwedwe	KZN293	Yes	Unqualified with findings	Yes	Acting	Permanent				2
Maphumulo	KZN294	-	Unqualified with findings	Yes	Acting	Permanent				
Ingwe	KZN431	-	Unqualified with findings	Yes	Permanent	Permanent				1
Kwa Sani	KZN432	Yes	Unqualified with findings	Yes	Permanent	Permanent				3
Greater Kokstad	KZN433	-	Unqualified with findings	-	Permanent	Permanent				1
Ubuhlebezwe	KZN434	Yes	Unqualified with no finding	Yes	Permanent	Permanent				1
Umkhulu	KZN435	-	Unqualified with no finding	-	Permanent	Acting				2
Greater Giyani	LIM331	-	Audit outstanding	-	Acting	Permanent				
Greater Letaba	LIM332	-	Disclaimer	Yes	Permanent	Permanent				
Greater Tzaneen	LIM333	-	Audit outstanding	Yes	Permanent	Permanent				1
Ba-Phalaborwa	LIM334	Yes	Disclaimer	-	Permanent	Permanent		Yes		3
Maruleng	LIM335	-	Qualified	-	Permanent	Acting				
Musina	LIM341	-	Qualified	-	Permanent	Permanent				2
Mutale	LIM342	Yes	Disclaimer	-	Permanent	Permanent				2
Thulamela	LIM343	-	Qualified	-	Permanent	Permanent				
Makhado	LIM344	-	Qualified	-	Permanent	Permanent				1
Blouberg	LIM351	-	Qualified	Yes	Permanent	Permanent				
Aganang	LIM352	-	Qualified	Yes	Permanent	Permanent				
Molemole	LIM353	Yes	Audit outstanding	Yes	Permanent	Permanent				1
Lepelle-Nkumpi	LIM355	-	Disclaimer	Yes	Permanent	Permanent				
Thabazimbi	LIM361	Yes	Disclaimer	-	Permanent	Permanent				2
Lephalale	LIM362	-	Qualified	-	Acting	Permanent				
Mookgopong	LIM364	-	Qualified	Yes	Acting	Permanent				3
Modimolle	LIM365	-	Adverse	Yes	Permanent	Permanent				1
Bela Bela	LIM366	-	Qualified	Yes	Acting	Permanent		Yes		2
Mogalakwena	LIM367	-	Qualified	-	Permanent	Permanent				2
Ephraim Mogale	LIM471	-	Disclaimer	Yes	Acting	Permanent				
Elias Motosoledi	LIM472	-	Qualified	Yes	Acting	Permanent		Yes		
Makhuduthamaga	LIM473	Yes	Qualified	Yes	Permanent	Permanent				1
Fetakgomo	LIM474	Yes	Qualified	Yes	Permanent	Permanent				2
Greater Tubatse	LIM475	-	Adverse	-	Acting	Permanent				1
Albert Luthuli	MP301	-	Qualified	-	Permanent	Permanent		Yes		1
Msukaligwa	MP302	Yes	Disclaimer	-	Acting	Acting		Yes		3
Mkhondo	MP303	-	Disclaimer	Yes	Permanent	Permanent		Yes		
Pixley Ka Seme	MP304	-	Qualified	-	Permanent	Acting		Yes		1
Lekwa	MP305	-	Qualified	Yes	Permanent	Permanent				3
Dipaleseng	MP306	Yes	Qualified	Yes	Permanent	Permanent				1
Victor Khanye	MP311	-	Qualified	-	Acting	Permanent				
Emakhazeni	MP314	-	Qualified	-	Permanent	Acting				
Thembisile	MP315	-	Qualified	-	Permanent	Acting		Yes		
Dr J.S. Moroka	MP316	-	Qualified	Yes	Permanent	Permanent		Yes		
Thaba Chweu	MP321	Yes	Disclaimer	Yes	Acting	Acting		Yes		4
Umjindi	MP323	-	Qualified	-	Permanent	Permanent		Yes		1
Nkomazi	MP324	Yes	Qualified	-	Permanent	Permanent		Yes		1
Bushbuckridge	MP325	-	Disclaimer	-	Permanent	Permanent	Yes	Yes		
Richtersveld	NC061	Yes	Unqualified with findings	Yes	Permanent	Permanent				1
Nama Khoi	NC062	-	Audit outstanding	Yes	Acting	Permanent				2
Kamiesberg	NC064	Yes	Disclaimer	-	Permanent	Permanent		Yes		3
Hantam	NC065	Yes	Qualified	-	Permanent	Permanent				2
Karoo Hoogland	NC066	Yes	Audit outstanding	-	Permanent	Permanent				2
Khai-Ma	NC067	Yes	Unqualified with findings	Yes	Permanent	Permanent				3
Ubuntu	NC071	Yes	Unqualified with findings	-	Permanent	Permanent				3
Umsobomvu	NC072	Yes	Unqualified with findings	Yes	Permanent	Permanent		Yes		1
Emthanjeni	NC073	-	Unqualified with findings	Yes	Permanent	Permanent				
Kareeberg	NC074	-	Qualified	-	Permanent	Permanent				2
Renosterberg	NC075	-	Disclaimer	-	Acting	Vacant		Yes		2
Thembelihle	NC076	Yes	Disclaimer	Yes	Permanent	Permanent		Yes		3
Siyathemba	NC077	Yes	Disclaimer	Yes	Permanent	Permanent				2
Siyancuma	NC078	Yes	Disclaimer	-	Permanent	Permanent		Yes		3
Mier	NC081	Yes	Disclaimer	Yes	Acting	Permanent				2
IKail Garib	NC082	-	Disclaimer	Yes	Permanent	Permanent				1
//Khara Hais	NC083	Yes	Qualified	Yes	Permanent	Permanent				1
IKheis	NC084	Yes	Audit outstanding	-	Permanent	Permanent				1
Tsantsabane	NC085	-	Disclaimer	Yes	Permanent	Permanent				1
Kgatelopele	NC086	-	Disclaimer	Yes	Permanent	Permanent		Yes		
Dikgatlong	NC092	-	Disclaimer	-	Permanent	Permanent				2
Magareng	NC093	Yes	Audit outstanding	-	Permanent	Permanent				2

Phokwane	NC094	-	Disclaimer	-	Permanent	Permanent																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																												</
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Summary Assessment Results: Metropolitan Municipalities

Annexure C

Cash

- Metropolitan municipalities reported positive cash balances throughout the 2013/14 financial year.
- The cash coverage has slightly improved from last year, however the City of Tshwane is the only municipality faced with significant financial risk.

**Overspending
on 2013/14
Operational
Budgets**

- A number of cities (5) failed to execute their operational budgets in line with the original 2013/14 projections. During the period under review, 1 metro overspent by more than 25 per cent of their operational budget.
- These trends reflect that some metros are required to practise credible budgeting.

**Underspending
on 2013/14
Capital Budgets**

- All metropolitan municipalities exhibit underspending in capital budgets as at 30 June 2014. Between 2012/13 and 2013/14 financial years the level of underspending increased from R2.8 billion to R4.2 billion.
- The City of Cape Town and Nelson Mandela municipalities underspent by 25 per cent and 24 per cent respectively.

**Growth in
Debtors**

- The metropolitan municipalities are still faced with escalating debtor books. The proportion of the debtors exceeds 30 per cent against their total revenue.
- In total, R52.8 billion is owed to metros, representing an increase of almost R3 billion when compared to the 2012/13 financial year.
- The City of Johannesburg is still owed the largest amount at R17.4 billion.

Creditors

- Generally, there is an improvement in the level of creditors at the metropolitan level.
- Creditors as a percentage of total cash stands at 50 per cent for all metros.
- The Cities of Tshwane and Johannesburg recorded significant creditors, reflecting a slight decline from the amount reported during 2012/13 financial year.

1. Cash Performance

	2011/12	2012/13	2013/14	Overall Trend	Municipality	Risk	Action
Positive Cash balance: 30 June 2014	8	8	8	→	All metro recorded positive cash balances	Low	None required
Negative Cash balances (assessed as the number of months over the previous 6 months)							
For more than 3 months	0	0	0	→	None	Low	
Between 1 and 3 months	0	0	0	→	None	Low	
Less than 1 months	0	0	0	→	None	Moderate	Liquidity to be monitored
Cash Coverage (ability of municipality to cover monthly operational expenditure):							
More than 3 months of operational expenditure	1	2	1	↑	Buffalo City	Low	
Between 1-3 months	4	5	6	↑	City of Johannesburg, Ekurhuleni, Etheke wini, Mangaung, Nelson Mandela Bay, Cape Town	Low	
1 month or less	3	1	1	↓	City Of Tshwane	Moderate to high	Requires monthly monitoring



Trend sustained over the financial year. No significant improvements or deterioration



Deterioration in trend observed



Improvement in trend observed

2. Over-spending of operational budgets

	2009/10	2010/11	2011/12	2012/13	2013/14	Overall Trend	Risk	Action
Total operating Budget (R'000)	105 938	121 642	135 464	140 446	149 512			
Total overspending of original operating budgets	1 414	1 330	1 236	-	-	→	Low	None
Percentage overspending	1%	1%	1%	0%	0%	→		
Over-spending of less than 10% of operational budget	None							
Over-spending of between 10% and 25% of operational budget	None							
Over-spending of more than 25% of operational budget	None							

3. Under-spending of capital budget

	2009/10	2010/11	2011/12	2012/13	2013/14	Overall Trend	Overall Risk	Action
Total Capital Budget (R'000)	26 546	20 763	20 694	26 731	30 249			
Total under-spending of original capital budget	3 191	3 560	2 173	3 997	3 928	↑	Moderate to high	None
Percentage under-spending	12%	17%	11%	15%	13%	↑		
Under-spending of less than 10% of capital budget	City of Tshwane							
Under-spending of between 10% and 30% of capital budget	Nelson Mandela Bay, Mangaung, City of Johannesburg, Ekurhuleni Metro, Cape Town, Buffalo City							
Under-spending of more than 30% of capital budget								

4. Growth in consumer debtors

	2009/10	2010/11	2011/12	2012/13	2013/14	Overall Trend	Overall Risk	Action
Total Own Revenue (R'000)	103 482 376	100 906 803	51 318 654	53 763 443	146 182 393			
Total Debtors	32 411 634	38 635 574	46 089 114	106 289 471	52 879 166	↑	Moderate to high	
Debtors as a % of own revenue	31%	35%	36%	37%	37%	↑		
Debtors as a percentage of own revenue								
Debtors less than 15% of total own revenue	None							
Debtors between 15% and 30% of total own revenue	Buffalo City, eThekweni, Cape Town							
Debtors more than 30% of total own revenue	Nelson Mandela Bay, Mangaung, Ekurhuleni Metro, City of Johannesburg, City of Tshwane							
Annual growth in debtors								
Growth in debtors of less than 10% over period	Buffalo City, Nelson Mandela Bay, Mangaung, Ekurhuleni Metro, City of Johannesburg, City of Tshwane, eThekweni, Cape Town							
Growth in debtors of between 10% and 20% over period	None							
Growth in debtors of more than 20% over period	None							

5. Creditor Management

	2011/12	2012/13	2013/14	Overall Trend	Overall Risk	Action
Total Cash and Investments (R'000)	20 241 825	20 743 943	28 418 673			
Total Creditors	10 266 872	30 607 799	14 258 002	↑	Moderate	
Creditors as a % of total cash	51%	148%	50%	↑		
Creditors less than 25% of total cash	City of Cape Town, Nelson Mandela Bay					
Creditors between 25% and 50% of total cash	Buffalo City, Mangaung, Ekurhuleni Metro., Etheke w ini					
Creditors between 50% and 75% of total cash						
Creditors more than 75% of total cash	City of Johannesburg, City of Tshwane					